

LEGISLATIVE BUDGET ANALYSIS 2005 BIENNIUM

Volume 3 - Agency Budgets

General Government and Transportation
Health and Human Services



January 2003

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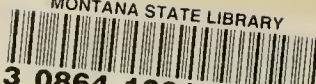
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LEGISLATIVE BUDGET ANALYSIS

2005 Biennium

Volume 3

Presented to the Fifty-eighth Legislature

Submitted by
The Legislative Fiscal Division

Helena, Montana

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AGENCY BUDGET ANALYSIS - INTRODUCTION

Agency Subcommittee Groupings
Agency Budget Analysis (Road Map)
Agency Budget Highlights



AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the Executive Budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate setting.

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

- Legislative Branch
- Consumer Counsel
- Judiciary
- Montana Chiropractic Legal Panel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Transportation
- Revenue
- Administration
- Appellate Defender Commission

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Livestock
- Natural Resources and Conservation
- Agriculture
- Commerce

CORRECTIONS AND PUBLIC SAFETY (Section D)

- Crime Control Division
- Justice

CORRECTIONS AND PUBLIC SAFETY (continued)

- Public Service Regulation
- Corrections
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Commissioner of Higher Education
- Community Colleges
- University Units and College of Technology
- Agricultural Experiment Station
- Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Montana Arts Council
- State Library Commission
- Fire Services Training School
- Montana Historical Society

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- Treasure State Endowment Program
- State Building Energy Conservation
- Resource Indemnity Trust Interest Account
- Cultural and Aesthetic Grant Program
- Libby Bond Program

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the “Agency Budget Analysis” is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the Executive Budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget.
2. Present law budget.
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the “Reference” section in Volume 1, or the publication entitled “Understanding State Finances and the Budgeting Process”, available through the Legislative Fiscal Division.) The analysis is presented in such a way as to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the Executive Budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the Executive Budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the Executive Budget or with any other aspect of agency operations and expenditures, they are included as an “LFD Issue”. The analyst may also provide additional information to aid the legislature in its decision making under the heading “LFD Comment”. All issues and comments are clearly identified in the narrative.
2. Other issues and options. In order to provide the legislature with alternatives to the Executive Budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

- 1) the agency narrative
- 2) the program narrative

Agency Narrative

The agency narrative provides an overview of the Executive Budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the Executive Budget request by year, including separate columns showing present law adjustments and new proposals. The reader can use this table to not only get a general idea of the size and funding of the agency, but also view any changes proposed by the Governor.
2. **Agency Description** is a brief description of the agency.
3. If included by the executive, a discussion of the following three types of proposals is included, each with LFD comments as appropriate:
 - **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for fiscal 2003, or supplemental appropriations approved in fiscal 2002
 - **Reorganization** details any major reorganization that took place in the 2003 biennium or is proposed by the executive for the 2005 biennium
 - **Language Recommendations** includes any agency-wide language proposed by the executive
4. **Agency Discussion** includes tables showing highlights of proposed budget and major LFD issues, and any related discussion. It is designed to aid the reader in gaining an understanding of the agency overall budget or significant budget areas.
5. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
6. **Biennium Comparison Table** compares adjusted actual fiscal 2002 expenditures and appropriations for fiscal 2003 (the 2003 biennium base) to the 2005 biennium Executive Budget so the reader can get a general sense of the change between biennia.
7. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
8. **Proposed Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
9. **New Proposals Summary Table** summarizes all new proposals proposed by the executive for the agency. An explanation of and comments on each of the new proposals is included in the relevant program narratives.
10. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the Executive Budget.

Note: The main and biennial comparison tables, the agency description, and the agency discussion and funding tables are included in each agency narrative. However, the other components are “optional”, indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including the adjusted fiscal 2002 base used to derive the budget, the total present law adjustments, new proposals, and the total Executive Budget, by fiscal year.
2. **Program Description** is a short description of the program and its functions.
3. **Reorganization** details any program reorganizations that took place in the 2003 biennium or that are proposed by the executive for the 2005 biennium.
4. **Program Discussion** details any points of overall program discussion by the LFD analyst. This section contains a table highlighting major budget factors and LFD issues.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. The **Executive Present Law Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - statewide present law adjustments, which include most personal services adjustments, the executive’s vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - other present law adjustments proposed by the executive
7. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The adjustment descriptions are written by the LFD analyst based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
8. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
9. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive.
10. **Language Recommendations** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
11. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following.

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through fiscal 2005.
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the 2005 biennium personal services costs different from actual fiscal 2002 costs. The most important are:

2003 Biennium Pay Plan and Other Benefits

The 2001 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay averaging about 4 percent each year.
2. An increase in insurance rates in each year of the biennium.

Since the pay plan was increased in fiscal 2003 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2005 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in fiscal 2002.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Classification Upgrades/Downgrades

All upgrades and downgrades of individuals or classes of positions authorized during the biennium through the “snapshot” date (June of fiscal 2002) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue.

Vacancy Savings

The executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty and those in agencies with fewer than 20 full-time equivalent positions.

Inflation/Deflation

The Executive Budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the Executive Budget has been included in the “Reference” section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Natural Resources Subcommittees will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the “Reference” section of Volume 1.

AGENCY BUDGET HIGHLIGHTS

The following summarizes the main budget highlights of the 2005 biennium Executive Budget. Please note that the following discussion pertains to HB 2 expenditures only. HB 2 appropriates over 80 percent of all general fund. However, reimbursements to local governments under HB 124 passed by the 2001 legislature are statutorily appropriated and are therefore not part of the following discussion.

PRIMARY BUDGET FACTORS

The 2005 biennium Executive Budget is defined by a series of additions and reductions in varying sizes and impacts among all agencies. The following summarizes the primary factors:

- 10.02 FTE in fiscal 2004 and 56.84 FTE in fiscal 2005 would be added. This total is the net after reductions in a number of agencies totaling 156.87 FTE in fiscal 2004 and 213.00 FTE in fiscal 2005.
- General fund would increase by only \$5.6 million, or less than 1 percent, from the 2003 biennium. However, this figure is misleading in that it includes the impacts of a funding switch that re-classified interest and income revenues supporting K-12 education as state special revenue that had been funded from the general fund in fiscal 2002. If this factor is removed, general fund increases by \$54.5 million.
 - The increase is dominated by funding for costs of state assumption of district courts and by population increases in corrections
- Present law changes are dominated by three factors:
 - Increases for statewide present law adjustments, including full funding of personal services (minus vacancy savings), fixed costs, and inflation
 - Caseload and enrollment changes
 - Reductions to continue the Governor's 17-7-140 spending reductions (although maintenance of precise actions taken in fiscal 2003 cannot be assumed)
- General fund new proposals are dominated by reductions to meet general fund targets within individual agencies. New proposal increases add a total of \$22.2 million general fund, but are dwarfed by reductions of \$86.9 million.
 - General fund new proposals are distinguished by a lack of a clear executive policy initiative. Major increases are to replace funding and address caseload increases in foster care, for developmental disabilities services (in part due to a reduction in federal funding), to discontinue POINTS II (although the total funding request would increase), and \$6.0 million for schools.
- Total new proposals decrease by \$0.7 million in fiscal 2004 and \$4.8 million in fiscal 2005. The smaller decrease primarily reflects additional state (most notably highway state special revenue bonding proceeds) and federal funds available.
- Few functions of state government are eliminated or significantly reduced, and these are primarily concentrated in human services programs. In most cases, the executive has identified a general fund reduction goal, but is nebulous about what precise measures will be taken to achieve this level of expenditure and the potential impact on services. LFD staff has attempted to ascertain anticipated impacts on services in the narratives that follow.

COMPARISON OF PROGRAM AREAS

Because the change in classification of interest and income funds supporting schools does not represent a reduction in funding available, the following comparisons address this factor by adjusting actual fiscal 2002 expenditures for this change to more accurately reflect actual changes. The following figure shows a comparison of biennia without factoring the interest and income revenues.

General Fund Increases by Major Component 2005 Biennium (in Millions)				
Component	Executive Budget	Increase Over 2003	Percent Increase	Percent of Increase
K-12 Education*	\$ 1,023.02	\$ (53.18)	-4.9%	-948.5%
Higher Education	273.38	0.38	0.1%	6.7%
Human Services	531.20	5.68	1.1%	101.3%
Corrections	209.86	14.65	7.5%	261.4%
All Other Government Agencies	<u>278.68</u>	<u>38.08</u>	<u>15.8%</u>	<u>679.2%</u>
Total	<u>\$ 2,316.14</u>	<u>\$ 5.61</u>	<u>0.2%</u>	

*Does not factor out the impact of change in classification of interest and income revenues.

The following compares major budget components by biennia by factoring out the interest and income revenues. These figures will be used in the following discussion.

General Fund Increases by Major Component 2005 Biennium (in Millions)				
Component	Executive Budget	Increase Over 2003	Percent Increase	Percent of Increase
K-12 Education*	\$ 1,023.02	\$ (4.24)	-0.4%	-7.8%
Higher Education	273.38	0.38	0.1%	0.7%
Human Services	531.20	5.68	1.1%	10.4%
Corrections	209.86	14.65	7.5%	26.9%
All Other Government Agencies	<u>278.68</u>	<u>38.08</u>	<u>15.8%</u>	<u>69.8%</u>
Total	<u>\$ 2,316.14</u>	<u>\$ 54.54</u>	<u>2.4%</u>	

*The 2003 figure used to compare to the 2005 biennium is adjusted for the change in classification of school trust interest and income to reflect the true change. Fiscal 2002 expenditures were adjusted by \$48.94 million. Actual general fund expenditures in fiscal 2002 were \$560.55 million, which would have resulted in a biennial reduction of \$53.18 million.

The main program areas show the following.

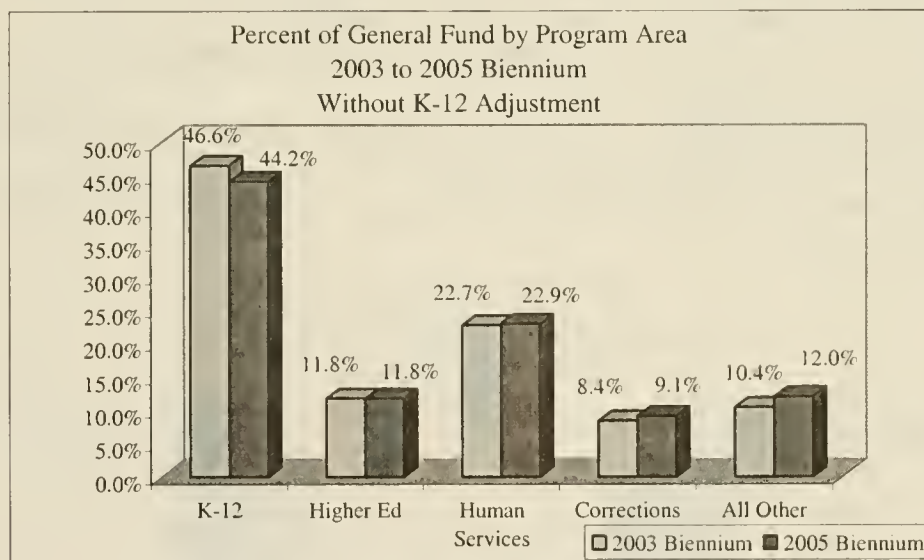
- While K-12 education shows a slight decrease, the executive is proposing a number of policy initiatives that would shift funding and tax burdens. In addition, the executive has proposed additional funding for K-12, as reductions in average number belonging (ANB) would reduce the 2005 biennium budget compared to the 2003 biennium level.
- Higher education is essentially held constant to the 2003 biennium level. This level in turn was significantly reduced in fiscal 2003 from the appropriation made by the 2001 legislature through budget reduction measures by the Governor under 17-7-140, and the legislature in special session.
- The Department of Corrections increase is primarily due to increased populations

- The 1.1 percent increase for the Department of Public Health and Human Services is the lowest increase in percentage and dollars in a number of biennia. Due to caseload increases, primarily in Medicaid, the overall increase reflects a number of service reductions, particularly in other Medicaid services and mental health services.

As shown, the primary areas of increase are “all other state government”. This increase is dominated by three factors:

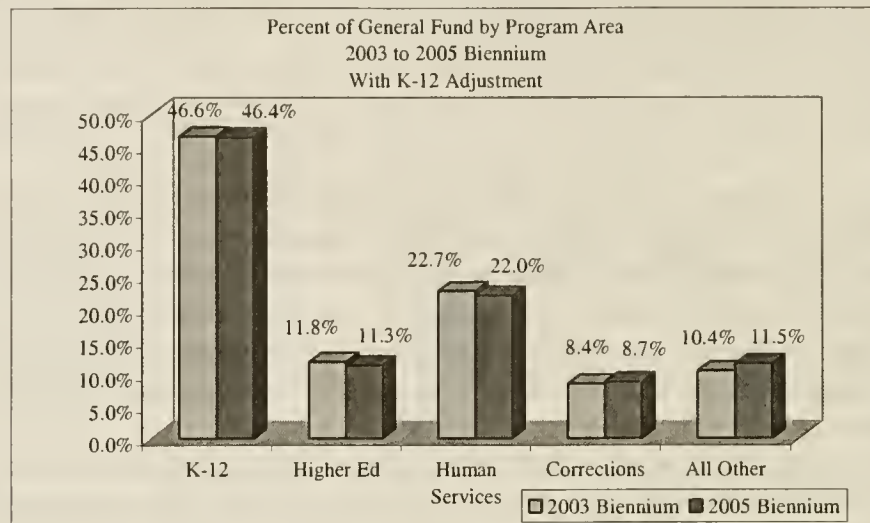
- Assumption by the State of the District Courts - Fiscal 2002 does not include any costs (except about \$200,000 of administration) to assume the district courts. Fiscal 2003 includes about \$18.3 million. The increase in the 2005 biennium is \$18.9 million.
- Motor Vehicle Division Funding – The legislature replaced general fund in the Motor Vehicle Division in the Department of Justice with highways state special revenue in fiscal 2003. The executive is proposing to return funding to the general fund, adding \$6.6 million over the 2003 biennium level.
- Department of Natural Resource and Conservation – This agency increases about \$7.6 million overall, primarily due to a reduction in the fiscal 2003 appropriation as a result of special session reductions and the transfer of \$3.3 million to fiscal 2002 to pay fire costs. Increased payments to the Crow Tribe add another \$1.0 million.

The following figure shows the allocation of general fund by program area for the 2005 biennium compared to the 2003 biennium.



All other government shows a large increase due to the factors discussed above, while K-12 education shows a reduction. However, these figures are again misleading in that a significant amount of funds that support K-12 education are not included – the reclassified interest and income revenues.

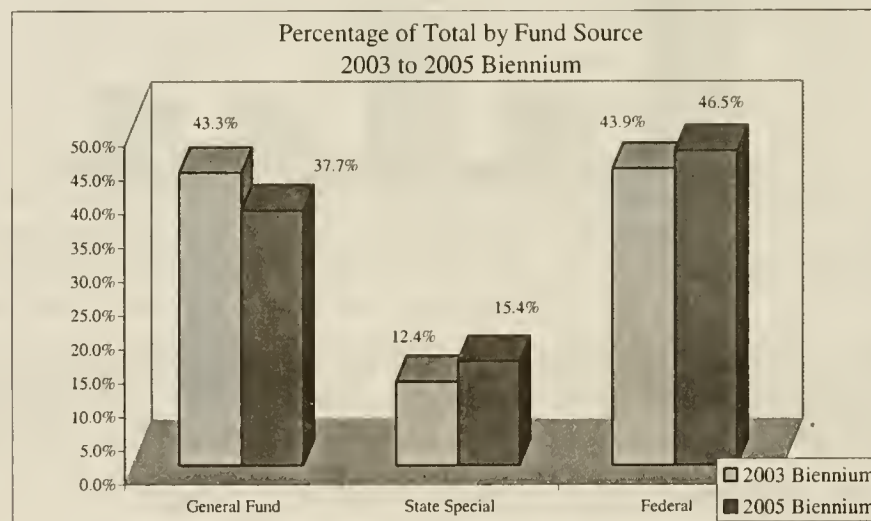
If these revenues were included, the comparison would show the following.



SOURCE OF FUNDING

The following figure illustrates that, in keeping with a trend for a number of years, federal funds continue to represent a greater share of state funding while the general fund, while growing, assumes a smaller share. Please note three things when examining the table:

- The reduction in general fund is partially due to the reclassification of interest and income revenues for schools
- \$111.5 million of the increase in federal funds is due to an accounting change that necessitates direct appropriation of federal food stamp benefits
- State special revenue is overstated due to bond proceeds for work on highway 93 that add about \$87.6 million



GENERAL GOVERNMENT AND TRANSPORTATION

Section A

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Legislative Branch
Legislative Audit Division
Legislative Fiscal Division
Legislative Services Division
Consumer Counsel
Judiciary
Montana Chiropractic Legal Panel
Governor's Office

Secretary of State
Commissioner of Political Practices
State Auditor
Transportation
Revenue
Administration
Appellate Defender Commission

-----Committee Members-----

House

Representative John Brueggeman (Chair)
Representative John Sinrud
Representative Monica Lindeen

Senate

Senator Rick Laible (Vice-Chair)
Senator Gregory Barkus
Senator Mike Cooney

-----Fiscal Division Staff-----

Greg DeWitt
Lynn Zanto

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	125.27	(1.50)	0.00	123.77	(1.50)	0.00	128.94	128.94
Personal Services	6,639,917	1,003,955	26,226	7,670,098	957,977	0	7,597,894	15,267,992
Operating Expenses	3,202,051	373,380	244,619	3,820,050	(607,135)	66,225	2,661,141	6,481,191
Equipment	6,890	13,110	0	20,000	13,110	0	20,000	40,000
Total Costs	\$9,848,858	\$1,390,445	\$270,845	\$11,510,148	\$363,952	\$66,225	\$10,279,035	\$21,789,183
General Fund	7,670,815	1,228,488	270,845	9,170,148	858,516	66,225	8,595,556	17,765,704
State/Other Special	2,178,043	161,957	0	2,340,000	(494,564)	0	1,683,479	4,023,479
Total Funds	\$9,848,858	\$1,390,445	\$270,845	\$11,510,148	\$363,952	\$66,225	\$10,279,035	\$21,789,183

Agency Description

The Legislative Branch consists of the legislature and supporting staff divisions as provided in 5-2-504, MCA. The principal agency entities are the Senate, the House of Representatives, the Legislative Services Division, the Legislative Fiscal Division, and the Legislative Audit Division. The budget for the three staff divisions and legislative interim work is presented in HB 2. The budget for House and Senate session activity is presented in HB 1, the "feed bill."

Agency Discussion

Legislative Branch Major Budget Highlights	
o	Over 80 percent of increase due to present law adjustments
o	Includes cyclical costs of session year, not in base year
o	New proposals for data processing and access, and legislator services
o	Budget presented per statute, with expectation branch will participate in budget solutions

The Legislative Branch budget is presented here as it was adopted by the approving legislative committees in September at the time original agency budgets were required to be submitted. It represents a present law budget, consistent with the original submissions by executive branch agencies. The executive is required to present the Legislative Branch budget as submitted. Adjustments to reflect a fair participation in the current budget shortfall will be presented to approving authority leadership and legislative and appropriations leadership before the budget is considered in the Joint General Government Subcommittee.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget				
Agency Program	General Fund	State Spec.	Grand Total	Total %
Audit & Examination	\$ 4,466,915	\$ 2,707,319	\$ 7,174,234	32.9%
Fiscal Analysis & Review	2,572,448	-	2,572,448	11.8%
Legis. Committees & Activities	999,614	-	999,614	4.6%
Legislative Services	9,726,727	1,316,160	11,042,887	50.7%
Grand Total	\$ 17,765,704	\$ 4,023,479	\$ 21,789,183	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	123.77	0.00	123.77	123.77	0.00	128.94	125.27	128.94
Personal Services	7,643,872	26,226	7,670,098	7,597,894	0	7,597,894	13,778,287	15,267,992
Operating Expenses	3,575,431	244,619	3,820,050	2,594,916	66,225	2,661,141	6,093,291	6,481,191
Equipment	20,000	0	20,000	20,000	0	20,000	106,890	40,000
Total Costs	\$11,239,303	\$270,845	\$11,510,148	\$10,212,810	\$66,225	\$10,279,035	\$19,978,468	\$21,789,183
General Fund	8,899,303	270,845	9,170,148	8,529,331	66,225	8,595,556	15,896,490	17,765,704
State/Other Special	2,340,000	0	2,340,000	1,683,479	0	1,683,479	4,081,978	4,023,479
Total Funds	\$11,239,303	\$270,845	\$11,510,148	\$10,212,810	\$66,225	\$10,279,035	\$19,978,468	\$21,789,183

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2 - Connect Legislator Laptop Computers to Network										
20	0.00	0	0	0	0	0.00	66,225	0	0	66,225
DP 4 - Participation, Pacific Northwest Economic Region										
21	0.00	51,337	0	0	51,337	0.00	0	0	0	0
DP 5 - Legislative Council on River Governance										
21	0.00	10,000	0	0	10,000	0.00	0	0	0	0
DP 6 - Dues, Council of State Governments										
21	0.00	73,880	0	0	73,880	0.00	0	0	0	0
DP 7 - Participation, NCSL and CSG										
21	0.00	110,628	0	0	110,628	0.00	0	0	0	0
DP 10 - Branch EDP Security Review										
28	0.00	25,000	0	0	25,000	0.00	0	0	0	0
Total	0.00	\$270,845	\$0	\$0	\$270,845	0.00	\$66,225	\$0	\$0	\$66,225

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	49.50	0.00	0.00	49.50	0.00	0.00	54.67	54.67
Personal Services	2,680,398	390,048	0	3,070,446	455,038	0	3,135,436	6,205,882
Operating Expenses	2,546,554	6,829	0	2,553,383	(369,157)	66,225	2,243,622	4,797,005
Equipment	6,890	13,110	0	20,000	13,110	0	20,000	40,000
Total Costs	\$5,233,842	\$409,987	\$0	\$5,643,829	\$98,991	\$66,225	\$5,399,058	\$11,042,887
General Fund	4,328,746	377,942	0	4,706,688	625,068	66,225	5,020,039	9,726,727
State/Other Special	905,096	32,045	0	937,141	(526,077)	0	379,019	1,316,160
Total Funds	\$5,233,842	\$409,987	\$0	\$5,643,829	\$98,991	\$66,225	\$5,399,058	\$11,042,887

Program Description

The Legislative Services Division provides research, reference, legal, technical, information technology, and administrative support services to the House, Senate, and other divisions of the Legislative Branch. Division services include: 1) bill and amendment drafting, preparation of bills for introduction, and engrossing and enrolling bills; 2) publication of legislative documents of record; 3) provision of legislative research and reference services, legal counseling on legislative matters, and agency legal support; 4) agency management and business services; 5) planning, installation, and maintenance of the agency computer network and applications; 6) legislative committee staffing and support; 7) preparation, publication, and distribution of the Montana Code Annotated text and annotations; 8) review of the text of proposed ballot measures; 9) broadcasting of legislative activities; and 10) provision of legislative information to the public. The Legislative Council provides policy guidance to the Legislative Services Division.

Program Narrative

Legislative Services Division Major Budget Highlights	
○ Funding increases attributed to statewide present law adjustments ○ Personal services increases due to vacancy savings, longevity increases, annualization of pay plan ○ Operating expenses increase due to cyclical nature of legislature and legislator data access	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Legislative Services						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 4,328,746	82.7%	\$ 4,706,688	83.4%	\$ 5,020,039	93.0%
02800 Reimbursable Activities	905,096	17.3%	897,891	15.9%	358,269	6.6%
02985 State Government Broadcasting	-	-	39,250	0.7%	20,750	0.4%
Grand Total	\$ 5,233,842	100.0%	\$ 5,643,829	100.0%	\$ 5,399,058	100.0%

The Legislative Services Program is funded by general fund except for state special revenue appropriations that support costs associated with the preparation, publication, and distribution of Montana Code Annotated text and annotations. For the 2005 biennium, \$9.7 million general fund provides 88 percent of division funding, and \$1.3 million state special revenue provides 12 percent of the division budget.

Present Law Adjustments														
-----Fiscal 2004-----						-----Fiscal 2005-----								
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds				
Personal Services					390,048					437,038				
Vacancy Savings					0					0				
Inflation/Deflation					7,621					7,699				
Fixed Costs					41,905					140,004				
Total Statewide Present Law Adjustments					\$439,574	\$584,741								
DP 1 - LSD Biennial Program Operations	0.00	(81,134)	51,547	0	(29,587)	0.00	(152,783)	(332,967)	0	(485,750)				
Total Other Present Law Adjustments					0.00	(\$81,134)	\$51,547	\$0	(\$29,587)	0.00	(\$152,783)	(\$332,967)	\$0	(\$485,750)
Grand Total All Present Law Adjustments					\$409,987	\$98,991								

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT

This program, in addition to increases in personal services for vacancy savings and pay plan increases, has increases for the cyclical session employee costs in fiscal 2005. These costs do not occur in the non-session base year.

This program pays all fixed costs for the Legislative Branch programs. A significant portion of the increase in operating costs is attributable to increases of over \$40,000 in fiscal 2004 and over \$140,000 in fiscal 2005 for fixed costs assessed by other agencies for services such as rent and operation of the state central computer system.

DP 1 - LSD Biennial Program Operations – The Legislative Branch business cycle is biennial, related to the cyclical nature of legislative sessions, production and publication of the Montana Codes Annotated, interim study committees and activities, and biennial audit work. Revenue collections spike and ebb in response to the biennial cycle. The Legislative Services Division budget is presented in annual format for budget review only; the budget will be established as biennial to respond to the need to responsibly manage the branch cyclical expenditures and revenues.

Included in this package are increases from base in staff overtime and temporary services staffing of the bill status system related to the non-base year 2005 legislative session. Significant operational decreases occur in consulting services, travel, and minor equipment, as well as printing, shipping, and credit card and royalty fees related to non-base year reductions in the publication and distribution of the Montana Codes Annotated. Fixed cost expenses, included in statewide present law adjustments, increase \$181,909 over the biennium.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2 - Connect Legislator Laptop Computers to Network										
20	0.00	0	0	0	0	0.00	66,225	0	0	66,225
Total	0.00	\$0	\$0	\$0	\$0	0.00	\$66,225	\$0	\$0	\$66,225

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 2 - Connect Legislator Laptop Computers to Network - The Legislative Branch Computer System Planning Council, established in 5-11-402, MCA, is responsible for developing and maintaining the Legislative Branch computer system plan. Included in the 2005 biennium plan is a proposal requesting funding to connect 75 laptop computers, personally owned by legislators, to the state data network during the 2005 regular legislative session. The proposal totals \$66,225, including funding for contracted support services and monthly network connection fees, and would be a biennial appropriation placed in the first year.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.97	0.00	0.00	0.97	0.00	0.00	0.97	0.97
Personal Services	68,842	49,759	26,226	144,827	(68,842)	0	0	144,827
Operating Expenses	306,254	328,914	219,619	854,787	(306,254)	0	0	854,787
Total Costs	\$375,096	\$378,673	\$245,845	\$999,614	(\$375,096)	\$0	\$0	\$999,614
General Fund	348,012	405,757	245,845	999,614	(348,012)	0	0	999,614
State/Other Special	27,084	(27,084)	0	0	(27,084)	0	0	0
Total Funds	\$375,096	\$378,673	\$245,845	\$999,614	(\$375,096)	\$0	\$0	\$999,614

Program Description

The Legislative Committees and Activities Program processes and monitors the expenditures of various legislative committees and activities, particularly those conducted during the interim between legislative sessions. Services include: 1) limited support of interim studies activities established under 5-5-202 through 5-5-217, MCA; 2) support of interstate cooperation activities of the legislature; and 3) support of other legislative activities for which appropriations are made.

Program Narrative

Legislative Committees and Activities

Major Budget Highlights

- Present Law adjustments increase funding slightly over fiscal 2002 base year expenditures
- New proposals for dues and to allow legislators to participate in various organizations

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Legis. Committees & Activities

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005
01100 General Fund	\$ 348,012	92.8%	\$ 999,614	100.0%	\$ -
02482 Program 21 Interim Studies	27,084	7.2%	-	-	-
Grand Total	\$ 375,096	100.0%	\$ 999,614	100.0%	-

The program is funded with general fund.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				(11,226)						(11,423)
Vacancy Savings				0						0
Inflation/Deflation				609						709
Total Statewide Present Law Adjustments				(\$10,617)						(\$10,714)
DP 3 - Interim Committee Biennial Operations	0.00	389,290	0	0	389,290	0.00	(364,382)	0	0	(364,382)
Total Other Present Law Adjustments	0.00	\$389,290	\$0	\$0	\$389,290	0.00	(\$364,382)	\$0	\$0	(\$364,382)
Grand Total All Present Law Adjustments				\$378,673						(\$375,096)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT

Personal services in this program are for the pay of legislators participating in interim committees and activities. No FTE are assigned to this program (0.97 FTE is a "placeholder" for legislator salaries).

DP 3 - Interim Committee Biennial Operations - The Legislative Committees & Activities Program supports the activities of statutory committees, interim committees, and interstate organizational participation. The budget is presented as a biennial appropriation in the first year to reflect the biennial nature of legislative operations. The biennial increase above base is approximately \$3,500.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 4 - Participation, Pacific Northwest Economic Region	21	0.00	51,337	0	0	51,337	0.00	0	0	0
DP 5 - Legislative Council on River Governance	21	0.00	10,000	0	0	10,000	0.00	0	0	0
DP 6 - Dues, Council of State Governments	21	0.00	73,880	0	0	73,880	0.00	0	0	0
DP 7 - Participation, NCSL and CSG	21	0.00	110,628	0	0	110,628	0.00	0	0	0
Total	0.00	\$245,845	\$0	\$0	\$245,845	0.00	\$0	\$0	\$0	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 4 - Participation, Pacific Northwest Economic Region - The Pacific Northwest Economic Region (PNWER) is an international organization promoting greater regional collaboration among the states of Alaska, Idaho, Montana, Oregon, and Washington, the provinces of Alberta and British Columbia, and the Yukon Territory. In 2001, the legislature authorized a Montana annual membership in the PNWER (Title 5, Chapter 11, part 7, MCA). However, no funds were appropriated for payment of Montana membership dues or to allow legislative delegates to participate in PNWER activities. A budget of \$51,337 is proposed to provide funding for Montana dues of \$32,699 and legislator participation.

DP 5 - Legislative Council on River Governance - The Legislative Council on River Governance is comprised of legislators from Montana, Oregon, Idaho, and Washington. The council mission is to assert state legislative authority over natural resources and river governance issues and to unite states for a proactive agenda of legislative action. In 2001, the Legislature approved a one-time appropriation of \$10,000 for the 2003 biennium for legislator participation in council meetings and activities. This proposal, implemented with a biennial appropriation placed in the first year, includes \$10,000 for legislative participation in council meetings and activities for the 2005 biennium.

DP 6 - Dues, Council of State Governments - The base budget includes partial funding of Montana biennial dues in the Council of State Governments (CSG) as approved by the last legislature. This proposal, implemented with a biennial appropriation placed in the first year, includes \$73,880 for the balance of full biennial dues in the CSG.

DP 7 - Participation, NCSL and CSG - The base budget includes full funding of Montana biennial membership dues in the National Conference of State Legislatures (NCSL) and partial funding of membership dues in the Council of State Governments (CSG). The current level base budget does not include funds for delegate participation in either organization. This proposal, implemented with a biennial appropriation placed in the first year, includes funding for delegate participation in NCSL and CSG during the 2005 biennium.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	18.80	0.00	0.00	18.80	0.00	0.00	18.80	18.80
Personal Services	1,086,713	119,171	0	1,205,884	127,530	0	1,214,243	2,420,127
Operating Expenses	54,418	2,489	0	56,907	40,996	0	95,414	152,321
Total Costs	\$1,141,131	\$121,660	\$0	\$1,262,791	\$168,526	\$0	\$1,309,657	\$2,572,448
General Fund	1,141,131	121,660	0	1,262,791	168,526	0	1,309,657	2,572,448
Total Funds	\$1,141,131	\$121,660	\$0	\$1,262,791	\$168,526	\$0	\$1,309,657	\$2,572,448

Program Description

The Legislative Fiscal Division provides the legislature with objective fiscal information and analysis relevant to Montana public policy and budget determination. Division services include: 1) fiscal analysis of state government and the furnishing of information bearing upon the financial matters of the state; 2) identification of ways to effect economy and efficiency in state government; 3) estimation of revenue and analysis of tax policy; 4) analysis of the executive budget; 5) compiling and analyzing fiscal information for legislators and legislative committees; and 6) staffing and support for legislative committees, including the preparation and processing of the General Appropriations Act. The Legislative Finance Committee provides guidance to the Legislative Fiscal Division.

Program Narrative

Legislative Fiscal Division Major Budget Highlights	
○	Increases due to statewide present law adjustments and cyclical nature of cost of legislative sessions

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Fiscal Analysis & Review						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,141,131	100.0%	\$ 1,262,791	100.0%	\$ 1,309,657	100.0%
Grand Total	\$ 1,141,131	100.0%	\$ 1,262,791	100.0%	\$ 1,309,657	100.0%

This program is funded with general fund.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					119,171					121,030
Vacancy Savings					0					0
Inflation/Deflation					2,489					2,496
Total Statewide Present Law Adjustments					\$121,660					\$123,526
DP 8 - LFD Biennial Program Operations	0.00	0	0	0	0	0.00	45,000	0	0	45,000
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	\$0	0.00	\$45,000	\$0	\$0	\$45,000
Grand Total All Present Law Adjustments					\$121,660					\$168,526

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 8 - LFD Biennial Program Operations - The Legislative Branch business cycle is biennial, related to the cyclical nature of legislative sessions, production and publication of the Montana Codes Annotated, interim study committees and activities, and biennial audit work. The Legislative Fiscal Division budget is presented in annual format for budget review only. The budget will be established as biennial to respond to the need to responsibly manage branch cyclical expenditures and revenues.

The level of funding requested for these cyclical session costs is the same as authorized for the 2003 biennium. Increases in operational costs relate to the non-base year regular legislative session and statewide present law adjustments. The categories affected include staff overtime, temporary services, printing, photocopy pool costs, and office supplies. Substantial printing costs are related to the budget analysis, session publications, budget summary pamphlets, and post-session reports.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	56.00	(1.50)	0.00	54.50	(1.50)	0.00	54.50	54.50
Personal Services	2,803,964	444,977	0	3,248,941	444,251	0	3,248,215	6,497,156
Operating Expenses	294,825	35,148	25,000	354,973	27,280	0	322,105	677,078
Total Costs	\$3,098,789	\$480,125	\$25,000	\$3,603,914	\$471,531	\$0	\$3,570,320	\$7,174,234
General Fund	1,852,926	323,129	25,000	2,201,055	412,934	0	2,265,860	4,466,915
State/Other Special	1,245,863	156,996	0	1,402,859	58,597	0	1,304,460	2,707,319
Total Funds	\$3,098,789	\$480,125	\$25,000	\$3,603,914	\$471,531	\$0	\$3,570,320	\$7,174,234

Program Description

The Legislative Audit Division conducts independent audits and provides factual and objective information to the legislative and executive managers of the public trust. Division services include: 1) conducting and reporting of biennial financial-compliance audits, performance audits, information systems audits, and special audits of state agency operations; 2) reporting of violation of penal statutes, instances of misfeasance, malfeasance, or nonfeasance, and shortages discovered in an audit that are covered by surety; 3) auditing records of entities under contract with the state; and 4) assisting the legislature, its committees, and its members by providing information related to the fiscal affairs of state government. The Legislative Audit Committee provides policy guidance to the Legislative Audit Division.

Program Narrative

Audit and Examination	
Major Budget Highlights	
o	Increases due to statewide present law adjustments and cyclical nature of biennial audit costs

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Audit & Examination						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 1,852,926	59.8%	\$ 2,201,055	61.1%	\$ 2,265,860	63.5%
02042 Legislative Audit	1,245,863	40.2%	1,402,859	38.9%	1,304,460	36.5%
Grand Total	\$ 3,098,789	100.0%	\$ 3,603,914	100.0%	\$ 3,570,320	100.0%

The Audit & Examination Program is funded by a combination of general fund and state special revenue appropriations. Special revenue is derived through the assessment, to agencies, of federally approved hourly rate charges for audit services. For the 2005 biennium, \$4.5 million general fund provides 62 percent of the division funding, while \$2.7 million state special revenue provides 38 percent.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					498,862					497,955
Vacancy Savings					0					0
Inflation/Deflation					2,990					3,694
Fixed Costs					(12,132)					(7,704)
Total Statewide Present Law Adjustments					\$489,720	\$493,945				
DP 9 - LAD Biennial Program Operations										
	(1.50)	6,705	(16,300)	0	(9,595)	(1.50)	(8,271)	(14,143)	0	(22,414)
Total Other Present Law Adjustments										
	(1.50)	\$6,705	(\$16,300)	\$0	(\$9,595)	(1.50)	(\$8,271)	(\$14,143)	\$0	(\$22,414)
Grand Total All Present Law Adjustments					\$480,125	\$471,531				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 9 - LAD Biennial Program Operations - The Legislative Branch business cycle is biennial, related to the cyclical nature of legislative sessions, production and publication of the Montana Codes Annotated, interim study committees and activities, and biennial audit work. Revenue collections spike and ebb in response to the biennial cycle. The Legislative Audit Division budget is presented in annual format for budget review only. The budget will be established as biennial to respond to the need to responsibly manage branch cyclical expenditures and revenues.

Included in the budget request is a 1.5 FTE reduction, resulting from a change in audit approach for the Montana University System. This reduction will not reduce audit services, rather it saves the state money by consolidating the university financial statements. Other changes from base include cyclical costs associated with a biennial independent audit of the legislative branch and audit division, the biennial Peer Review required by Government Auditing Standards, and costs associated with preparation of a branch disaster recovery plan and reactive system development needs.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 10 - Branch EDP Security Review										
28	0.00	25,000	0	0	25,000	0.00	0	0	0	0
Total	0.00	\$25,000	\$0	\$0	\$25,000	0.00	\$0	\$0	\$0	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 10 - Branch EDP Security Review - This proposal provides funding for costs associated with a one-time only independent electronic data processing (EDP) security review of the Legislative Branch computer environment. A similar proposal brought forward last biennium was eliminated from the program's budget.

Agency Proposed Budget	Base Budget	PL Base Adjustment	New Proposals	Total	PL Base Adjustment	New Proposals	Total	Total
Budget Item	Fiscal 2002	Fiscal 2004	Fiscal 2004	Exec. Budget Fiscal 2004	Fiscal 2005	Fiscal 2005	Exec. Budget Fiscal 2005	Exec. Budget Fiscal 04-05
FTE	5.04	0.00	0.00	5.04	0.00	0.00	5.04	5.04
Personal Services	366,805	37,264	0	404,069	37,261	0	404,066	808,135
Operating Expenses	655,729	150,885	0	806,614	158,476	0	814,205	1,620,819
Total Costs	\$1,022,534	\$188,149	\$0	\$1,210,683	\$195,737	\$0	\$1,218,271	\$2,428,954
State/Other Special	1,022,534	188,149	0	1,210,683	195,737	0	1,218,271	2,428,954
Total Funds	\$1,022,534	\$188,149	\$0	\$1,210,683	\$195,737	\$0	\$1,218,271	\$2,428,954

Agency Description

The Consumer Counsel was created by Article XIII, Section 2 of the 1972 Montana Constitution, and is governed by Title 5, Chapter 15, and Title 69, Chapter 1 & 2, MCA. The office represents consumer interests in hearings before the Public Service Commission and other like agencies. They may initiate, intervene in, or participate in appropriate proceedings in the court systems or administrative agencies on behalf of the public of Montana.

Agency Discussion

Consumer Council	
Major Budget Highlights	
o	Funding increases 7.6 percent over the last biennium
o	Contingency fund for unanticipated caseloads is requested to continue at \$125,000 per year
o	Other increases consist primarily of present law adjustments for personal services, professional services, and travel

Funding

The following table summarizes funding for the Consumer Council as recommended by the Governor.

Program Funding Table Administration Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02801 Dep Rev Consumer Cncl Tax	\$ 1,022,534	100.0%	\$ 1,210,683	100.0%	\$ 1,218,271	100.0%
Grand Total	\$ 1,022,534	100.0%	\$ 1,210,683	100.0%	\$ 1,218,271	100.0%

The Consumer Counsel is funded by a constitutionally earmarked tax levied on all regulated entities under the jurisdiction of the Public Service Commission. The tax rate can be revised to adjust for previous fiscal year carryover to avoid accumulation of a significant cash balance. The tax is recoverable by the regulated companies through their rates and charges to consumers.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	5.04	0.00	5.04	5.04	0.00	5.04	5.04	5.04
Personal Services	404,069	0	404,069	404,066	0	404,066	761,329	808,135
Operating Expenses	806,614	0	806,614	814,205	0	814,205	1,495,175	1,620,819
Total Costs	\$1,210,683	\$0	\$1,210,683	\$1,218,271	\$0	\$1,218,271	\$2,256,504	\$2,428,954
State/Other Special	1,210,683	0	1,210,683	1,218,271	0	1,218,271	2,256,504	2,428,954
Total Funds	\$1,210,683	\$0	\$1,210,683	\$1,218,271	\$0	\$1,218,271	\$2,256,504	\$2,428,954

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				37,264					37,261
Vacancy Savings				0					0
Inflation/Deflation				746					806
Fixed Costs				36					553
Total Statewide Present Law Adjustments				\$38,046					\$38,620
DP 1 - Present Law Base Adjustments									
0.00	0	150,103	0	150,103	0.00	0	157,117	0	157,117
Total Other Present Law Adjustments									
0.00	\$0	\$150,103	\$0	\$150,103	0.00	\$0	\$157,117	\$0	\$157,117
Grand Total All Present Law Adjustments				\$188,149					\$195,737

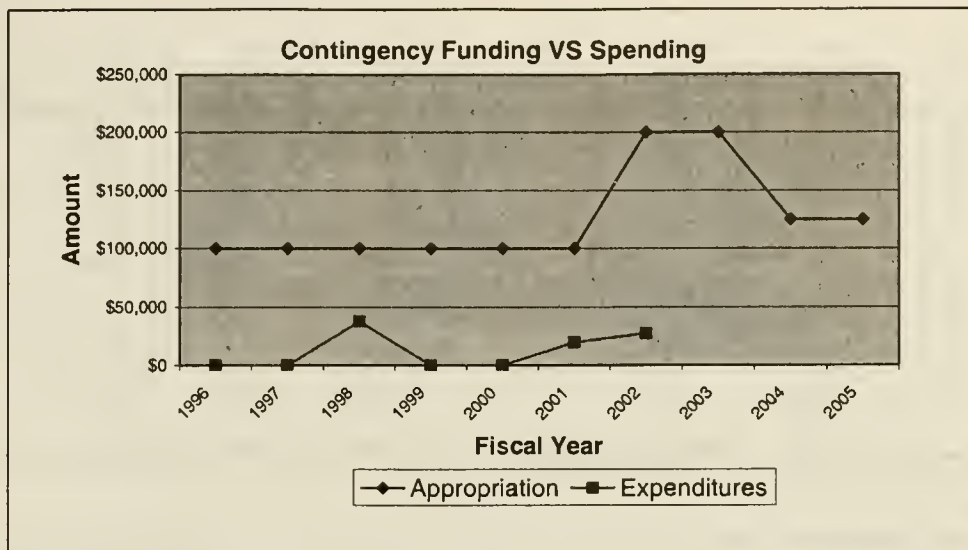
Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Present Law Base Adjustments - The adjustment includes \$125,000 per year contingency for costs associated with unanticipated caseload, approximately \$15,000 in fiscal 2004 and \$22,000 in fiscal 2005 for professional services, \$7,700 per year for travel, and \$2,500 per year in other miscellaneous expenses.

LFD COMMENT

The Consumer Counsel has added a \$125,000 annual contingency fund into their operating costs as a present law base adjustment. 69-1-223, MCA allows that the counsel appropriation may include a contingency amount for expenses due to an unanticipated caseload. Prior to the 2001 legislative session, the contingency fund amount has been \$100,000 per year. Last biennium an additional \$100,000 each year was approved as a restricted appropriation to cover anticipated caseload increases and legal costs due to uncertainties related to supply and market conditions in the utilities industries, for a total annual contingency fund amount of \$200,000. Total expenditures during fiscal 2002 were \$27,396. Expenditures from the contingency fund have been minimal and this proposal brings the amount closer to historical funding levels.



Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	357.43	0.00	16.00	373.43	0.00	16.00	373.43	373.43
Personal Services	8,364,385	11,877,687	656,641	20,898,713	11,851,000	659,694	20,875,079	41,773,792
Operating Expenses	1,744,876	7,750,231	668,460	10,163,567	8,638,262	638,852	11,021,990	21,185,557
Equipment	329,311	0	0	329,311	0	0	329,311	658,622
Grants	0	0	480,849	480,849	0	480,849	480,849	961,698
Total Costs	\$10,438,572	\$19,627,918	\$1,805,950	\$31,872,440	\$20,489,262	\$1,779,395	\$32,707,229	\$64,579,669
General Fund	9,354,970	19,508,432	(25,000)	28,838,402	20,367,446	(25,000)	29,697,416	58,535,818
State/Other Special	710,015	175,997	1,757,342	2,643,354	178,761	1,731,019	2,619,795	5,263,149
Federal Special	373,587	(56,511)	73,608	390,684	(56,945)	73,376	390,018	780,702
Total Funds	\$10,438,572	\$19,627,918	\$1,805,950	\$31,872,440	\$20,489,262	\$1,779,395	\$32,707,229	\$64,579,669

Agency Description

The Judicial Branch is authorized by Article III, Section I, and Article VII of the Montana Constitution. The Supreme Court, consisting of a Chief Justice and six justices, has appellate jurisdiction for the state. The court also has original jurisdiction to issue, hear, and determine writs as provided by law, and has general supervisory control over all courts in the state. The Supreme Court establishes rules governing appellate procedure, other court practices and procedures, admission to the bar, and conduct of its members. SB 176, approved by the 57th Legislature, mandated state funding of Montana district courts with general fund revenue beginning July 1, 2002. The bill made district courts part of the Judicial Branch of state government.

Executive Recommended Legislation

District Court Variable Costs - The executive proposes a bill to sort out responsibilities for the variable costs that are projected to be in excess of the funding mechanism provided under district court assumption. These costs are projected at \$17.2 million by the judiciary based on the average increase of costs from 1996 through 2001 as reimbursed through the former state district court reimbursement program, plus an adjustment for uncertainties regarding variable costs. The adjustment of about \$6 million for uncertainties of variable costs is not based upon actual cost experience. Consequently the validity of the cost can be questioned.

Judicial Branch Information Technology - The executive proposes increasing the user surcharge for court information technology and making permanent the user surcharge and the account established for court information technology. This is included as a new proposal requiring additional legislation under Program 01 Supreme Court Operations.

Agency Discussion

Judiciary Major Budget Highlights
○ General fund increase \$19.5 million in fiscal 2004 and \$20.3 million in fiscal 2005 over fiscal 2002 expenditures, primarily due to state district court assumption ○ State special revenue increases approximately \$1.7 million per year based on a proposed increase in and continuation of the information technology surcharge ○ The Executive Budget includes the addition of 16.00 FTE, 14.00 of which would be funded with state special revenue from the information technology surcharge and the remaining 2.00 with federal special revenue ○ The Executive Budget is about \$18.2 million less than the agency submitted budget primarily due to variable costs of indigent defense, involuntary commitment proceedings, jury and witness fees, and some court reporting costs ○ Judiciary Branch proposals not recommended to be funded by the executive, but that may be pursued by the branch include: ○ \$329,559 for three law clerks for the Supreme Court Justices ○ \$185,790 to fund 2.25 FTE, including an accounting technician to process district court expenses and 1.25 FTE to replace 1.25 FTE that are currently filled, but whose statutory authority was eliminated with the passage of SB 176 ○ \$17,211,828 for estimated district court variable costs of court reporters, jury services, witness services, psychiatric examinations, indigent defense, court appointed special advocate (CASA)/guardian at litem (GAL), youth court/juvenile probation, and youth in need of care. This amount is estimated by the Judiciary and is in addition to funding of \$15,128,509 proposed by the executive ○ The branch voluntarily withdrew \$202,400 of general fund proposals and replaced \$109,444 others with state special revenue to meet the Governor's target in some programs.
Major LFD Issues
○ Judicial branch information technology ○ State assumption of district courts ○ Requests for funding when some expenditures are already in the base

Funding

The following table summarizes funding for the agency, by program and source as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Supreme Court Operations	\$ 6,095,260	\$ 3,768,361	\$ 780,702	\$ 10,644,323	16.5%
Boards And Commissions	518,271	50,000	-	568,271	0.9%
Law Library	1,546,920	-	-	1,546,920	2.4%
District Court Operations	49,629,543	-	-	49,629,543	76.9%
Water Courts Supervision	-	1,444,788	-	1,444,788	2.2%
Clerk Of Court	745,824	-	-	745,824	1.2%
Grand Total	\$ 58,535,818	\$ 5,263,149	\$ 780,702	\$ 64,579,669	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	357.43	16.00	373.43	357.43	16.00	373.43	357.43	373.43
Personal Services	20,242,072	656,641	20,898,713	20,215,385	659,694	20,875,079	26,793,871	41,773,792
Operating Expenses	9,495,107	668,460	10,163,567	10,383,138	638,852	11,021,990	5,553,989	21,185,557
Equipment	329,311	0	329,311	329,311	0	329,311	943,681	658,622
Grants	0	480,849	480,849	0	480,849	480,849	634,340	961,698
Total Costs	\$30,066,490	\$1,805,950	\$31,872,440	\$30,927,834	\$1,779,395	\$32,707,229	\$33,925,881	\$64,579,669
General Fund	28,863,402	(25,000)	28,838,402	29,722,416	(25,000)	29,697,416	30,640,096	58,535,818
State/Other Special	886,012	1,757,342	2,643,354	888,776	1,731,019	2,619,795	2,492,534	5,263,149
Federal Special	317,076	73,608	390,684	316,642	73,376	390,018	793,251	780,702
Total Funds	\$30,066,490	\$1,805,950	\$31,872,440	\$30,927,834	\$1,779,395	\$32,707,229	\$33,925,881	\$64,579,669

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1101 - Grant Manager										
01	1.00	0	0	43,618	43,618	1.00	0	0	43,473	43,473
DP 1103 - Court Assessment Program										
01	1.00	0	0	29,990	29,990	1.00	0	0	29,903	29,903
DP 2101 - Courts of Limited Jurisdiction Funding Switch										
02	0.00	(25,000)	25,000	0	0	0.00	(25,000)	25,000	0	0
DP 5101 - Reduce Water Courts Personal Services										
05	0.00	0	(15,000)	0	(15,000)	0.00	0	(15,000)	0	(15,000)
DP 8001 - Judicial Branch Information Technology (Requires Legislation)										
01	14.00	0	1,717,620	0	1,717,620	14.00	0	1,691,297	0	1,691,297
DP 8003 - Computer Replacement (Requires Legislation)										
01	0.00	0	29,722	0	29,722	0.00	0	29,722	0	29,722
Total	16.00	(\$25,000)	\$1,757,342	\$73,608	\$1,805,950	16.00	(\$25,000)	\$1,731,019	\$73,376	\$1,779,395

Agency Issues

Background

District court financing has been a challenge for many state and local governments throughout the country. Prior to July 1, 2002, primarily the counties funded Montana district courts, except district court judges salaries and reimbursements to counties for some costs related to criminal felony cases were provided by the state. This changed during the 2001 legislative session when SB 176, requiring district courts to become a state administered and funded program, along with HB 124, intended to simplify the state and local government funding structure, were approved. These bills evolved out of the work of two 1999/2000 interim committees charged with exploring concepts and opportunities to create a complementary funding relationship between state and local governments, including district courts. The Court Funding and Structure Committee's primary mission was to look at bringing the responsibility for funding and operating the court system into one governing body. The Local Government Structure and Funding Committee worked on simplifying the funding. The committees recommended to the 2001 legislature that district court functions become state funded under the Judiciary Branch of government (except for clerks of district court and their employees).

State district court assumption became effective on July 1, 2002 and was implemented through the efforts of the District Court Council, provided in SB 176, along with Judiciary staff. During this time and since implementation, the council and branch have encountered issues with SB 176 and continue to advocate that the bill was under funded. Details related to the original legislation, the proposed 2005 Executive Budget, the issues, and options are provided.

2003 Biennium

SB 176

Under SB 176 passed by the 2001 legislature, the district courts, with the primary exception of the clerks of court and the provision of office space, became a state-funded function. Beginning in fiscal 2003, the state Judiciary assumed responsibility for oversight and administration of the 22 courts, including approximately 245 additional FTE. Major provisions of this legislation include:

- Establishment of a District Court Council to adopt policies and procedures to administer the state-funded district court program, including resource allocation among district courts, hiring policies, court procedures, information technology, and other issues relevant to state assumption of district courts
- Detail of what is considered a state-assumed cost, and what remains a local government cost, including specific costs to be paid for with revenue from local government mill levy for district courts in 7-6-2511, MCA
- Depositing the revenue from a variety of district court fees and reimbursed costs in the state general fund, effective July 1, 2003
- Requiring that each county is to provide office, courtroom, and other space for district court operations.
- Providing for local government authority to supplement the district court budget
- Providing that the court administrator shall administer legal assistance for indigent victims of domestic violence, as provided for in § 3-2-714, MCA
- Providing that court reporters may be 1) state employees foregoing transcription fees (all transcription fees must be deposited in the state general fund); 2) state employees retaining transcription fees; or 3) independent contractors

Functions that had been supported by the counties that are now state expenses include:

- Salaries and benefits for staff of district court judges (except clerks), law clerks, court reporters, supreme court marshals, juvenile probation officers, youth division office staff, and youth court assessment officers
- Juror and witness fees before a grand jury
- Court sanctioned education program on effects of dissolution of marriage on children
- All expenses associated with civil jury trials if paid in county budgets in fiscal 1998 or 1999
- All other costs associated with operations and maintenance of district courts including contract costs for court reporters, youth court and youth division offices, and employee training
- Involuntary commitment proceedings.

In addition, the state assumed full financial support for certain costs that had been funded in whole or in part with state appropriations. These include:

- Total costs of transcripts, witness fees and expenses, jury fees and expenses, psychiatric examination fees, and indigent defense in criminal cases only (beginning July 1, 2003 prior to this date the state paid to extent that funds were available)
- County attorney costs if related to escape or disturbance at Montana State Prison
- Transcript fees, witness fees, and psychiatric examination fees in federal habeas corpus cases that challenge validity of a conviction or sentence
- Habeas corpus post conviction proceedings and appeals
- Transcript fees, witness fees, medical and psychological evaluation fees of a youth or guardian, guardian ad litem or child advocate for youth, and court ordered alternative dispute resolution costs in youth investigations, youth legal custody, or termination of parental rights proceedings
- The appellate defender program
- Salaries, benefits, travel and training of district court judges

Funding

Funding was provided through two means: 1) HB 2; and 2) HB 124.

HB 2

The 2001 legislature appropriated \$800,500 general fund over the biennium to the Judiciary in HB 2, for costs associated with administering state district court assumption such as the accounting, payroll, budgeting and administrative functions. Funding for 8.50 FTE, operating expenses and equipment was included in the restricted appropriation. HB 2 also included costs of the district court judge's salaries, benefits, and travel expenses, which had already been a state expense. General fund of \$4,853,964 in fiscal 2002 and \$5,006,311 in fiscal 2003 was appropriated for that purpose.

HB 124

An appropriation was made in HB 124 for other fiscal 2003 expenses of the court. Because counties realize a cost savings from state assumption of the district courts, the allocation of reimbursed moneys to which counties were entitled under HB 124 was reduced by a like amount in fiscal 2003.

Original Funding Projections

Methodology

Original funding projections were provided by county government, compiled and reviewed by Department of Revenue (DOR), with reconciliation done in partnership between DOR and the counties. The methodology was based on 1998 county revenues used to fund district courts as recorded in the state Budgeting and Reporting System (BARS), followed by a 1999 expenditure survey of county commissioners conducted by the DOR Tax Policy and Research (TPR) staff to verify the BARS data. TPR staff repeated the survey in 2001. All three efforts were fairly consistent in their results, as illustrated in the following figure, providing a reasonable basis for the funding projections.

Figure 1 District Court Funding Projections					
	Actual Recorded Total Cnty Expenses	---Reductions - Continued County Costs--- Clerk of Court	Grants	Other	State Assumed Expenses
1998 BARS Data	25,951,436	5,331,746	1,053,053	679,726	18,886,911
1999 Expenditure Survey	25,935,962	n/a	n/a	n/a	n/a
2001 Expenditure Survey	28,423,178	6,190,599	2,192,857	1,875,620	18,164,102
<i>*2001 costs in the "Other" column included \$940,000 of lower court public defender costs & \$427,000 juvenile probation costs (in-home dependent care, jailers) that were harder to break out under the 1999 survey methodology</i>					

Since the 1998 and 1999 numbers were very close, the interim committee used the 1998 BARS number as their starting point, allowing the benefit of inflation from 1998 to 1999. The number was adjusted to remove costs that wouldn't be funded by the state, such as fixed charges, debt service, grants and contributions, and capital outlay, along with the personal services and operating costs of the clerks of district court. The adjusted 1998 number was about \$18.9 million.

To estimate expenses for the 2003 biennium, pay and inflation adjustments were made to the adjusted 1998 amount. Pay adjustments were based on the executive pay plan for the 2001 biennium providing a 3 percent per year increase. An inflation price index that averaged about 2.1 percent per year was applied to supplies and equipment. The result was a projected fiscal 2003 expense of \$24.5 million.

The expenditure survey of county commissioners was repeated by TPR staff in 2001 and reflected total county expenditures for district courts (before adjustments) at \$28,423,178. This number is very close to \$28,357,834, the amount calculated when applying a 3 percent growth factor to the 1998 unadjusted BARS number of \$25,951,436. But, once adjustments for non-state assumed expenses are removed the state assumed costs are \$18,164,101, about equivalent to the 1998 estimated state assumed costs. The reason is that reported expenditures reflect that counties received approximately \$1.0 million more in grants than received in 1998, clerk of court expenditures increased about \$859,000, and other non-assumed state expenses increased about \$1.2 million. Other non-assumed state expenses included \$940,000 of non-criminal public defender costs and \$427,000 in juvenile probation costs, a lot of which involved contracted services that may have been harder to separate into state assumed or county cost under the 1999 methodology. The 2001 methodology was improved to more accurately reflect county continued versus state assumed costs through collection of data by function (i.e. clerk of court, public defender, etc) and expenditure type. However, there were still instances where costs could not be broken out. In those situations, staff categorized the total costs as state-assumed expenses in an effort to avoid underestimating costs.

The 2003 appropriation was established based on the 2001 survey of county government expenditures for district courts plus a 6 percent growth adjustment and was included in HB 18 of the August 2002 Special Session at \$18,389,345.

2005 Biennium

Executive Budget Request

Overview

The executive recommended 2005 biennium budget for Program 04-District Court Operations is \$49,629,543. The Executive Budget presents the district court program as two major components, district court operations and district court assumption. District court operations consist of the 42 district court judges' salaries, and personal services and operating costs for the 8.50 FTE authorized by the 2001 legislature. As stated, these costs were included in HB 2 in the 2003 biennium. District court assumption refers to the fixed and variable costs assumed by the state under SB 176, along with the operating costs of the district court judges. These costs were appropriated in HB 124 in fiscal 2003. The components of the proposed 2005 biennium funding level are shown in Figure 2:

Figure 2 Executive Proposed 2005 Biennium District Court Budget by Year			
	FY 2004	FY 2005	Biennial Total
<u>District Court Operations</u>			
FTE	50.5	50.5	
Personal Services	5,693,730	5,676,902	11,370,632
Operating Costs	<u>472,386</u>	<u>474,905</u>	<u>947,291</u>
DC Operations Total	\$ 6,166,116	\$ 6,151,807	\$ 12,317,923
<u>District Court Assumption</u>			
FTE	245.18	245.18	
Personal Services	10,778,617	10,768,670	21,547,287
Operating Costs	<u>7,434,309</u>	<u>8,330,024</u>	<u>15,764,333</u>
DC Assumption Total	\$ 18,212,926	\$ 19,098,694	\$ 37,311,620
<u>Total State DC Program</u>			
FTE	295.68	295.68	
Personal Services	16,472,347	16,445,572	32,917,919
Operating Costs	<u>7,906,695</u>	<u>8,804,929</u>	<u>16,711,624</u>
Total Combined State DC Program	\$ 24,379,042	\$ 25,250,501	\$ 49,629,543

District Court Operations

The first component, district court operations, increases about \$322,000, or 5.5 percent over the fiscal 2002 appropriated level. The increase is attributed to pay raises made in accordance with 3-5-2111, MCA for the 42 district court judges including the salaries of two new judges in Ravalli and Cascade counties added in fiscal 2003, along with statewide adjustments for fixed costs, inflation and annualization of the pay plan for the 8.50 non-judge employees.

As stated, the 2001 legislature provided an \$800,500 biennial appropriation in HB 2 to administer district court assumption. The legislation did not specify for what the funds were to be spent. However, the SB 176 fiscal note used to provide direction for the HB 2 appropriation was developed based on 8.50 FTE at an approximate biennial cost of \$648,816, operating costs at \$121,800 (20 percent of personal services), and one-time equipment at \$29,750. FTE envisioned in the fiscal note included a district court administrator, 1.00 FTE support staff and 6.50 FTE fiscal staff.

Most of the employees were hired near the end of fiscal 2002 and salaries were provided at a higher level than anticipated. Actual hires by the Judiciary included three administrators (human resources, information technology and district courts), two accounting and fiscal policy analysts, a financial assistant, a payroll technician, an office assistant and a half-time grant specialist. The 2003 biennium annualized costs including salary and benefits is about \$987,000, increasing to approximately \$1,013,900 for the 2005 biennium. Biennium costs for personal services associated with the 8.50 FTE are about \$365,100 greater than the 2003 biennium anticipated level of \$648,816. Because most of the positions were hired in the latter part of fiscal 2002, only \$217,500 of the 2003 biennium appropriation was expended in the first year. Therefore, expenditures should not exceed the appropriated amount in fiscal 2003, but have led to a higher fiscal 2005 budget request.

District Court Assumption

The second component, district court assumption, includes \$18.2 million in fiscal 2004 and \$19.1 million in fiscal 2005 for personal services and operating expenses compared to the fiscal 2003 appropriation of \$18.4 million. The executive adjusted the 2003 appropriation for staff and operating costs of the two new judgeships and special session reductions. The remaining difference between the fiscal 2003 appropriation and the Executive Budget is attributed to the amount of funding included by the executive in the variable cost component.

Costs are divided into “fixed” and “variable” costs. Section 62 of SB 176 describes the fixed budget component as costs that are not variable with caseload including salaries and related operating costs for permanent employees of the court and contracted professional services.

The variable cost component are those costs that are variable with caseload including but not limited to juror fees, witness fees and expenses, and indigent defense costs. In fiscal 2003, any costs over the appropriated level are the responsibility of the counties. However, under current law, these costs will be completely borne by the state, starting in fiscal 2004. In its original request, the Judiciary included an additional \$17.2 million over the biennium for these costs. The executive notes that a bill will be introduced to determine responsibilities regarding variable costs and address the difference between the agency submitted and executive budget.

Variable costs estimated by the branch were based on the past five years of costs reimbursed to counties under the district court criminal reimbursement program for court reporters, jury services, witness services, psych exams, indigent defense, fixed costs, CASA/GAL, youth court/juvenile probation, and youth in need of care. An average annual increase was calculated for each item and applied to 2001 actual reimbursements to estimate the 2005 biennium costs. However, before applying the percent increase, fiscal 2001 actual reimbursements were inflated due to the uncertainties of variable costs. This inflationary adjustment accounts for approximately \$6.0 million of the difference between the agency and executive projected budgets. This inflation amount was not based upon actual cost experience. Consequently, the validity of the cost increase can be questioned.

ISSUES*Unanticipated Costs*

In testimony to both the Legislative Finance Committee and Law and Justice Interim Committee, representatives of the Supreme Court identified several concerns with the current level of funding provided to administer and operate the district courts. Costs are attributed to staff & operating expenses for new judgeships in Cascade and Ravalli counties, court automation expenses, costs of the pay plan, additional rent, county employee leave accruals, grant funded positions, and increases in variable costs. The majority of the additional funding is requested in the Executive Budget and includes:

- o Staff and operating costs of new Cascade and Ravalli county judges - \$241,200 of which \$156,000 was added during 2002 special session and \$89,200 annualized cost is requested as a present law adjustment. Funding for the new judges was provided through HB 2, but the associated staff and operating expenses were not.
- o Costs of the new Judicial Branch pay plan for FTE below minimum salary level - \$156,000 is requested as a present law adjustment. SB 176 guarantees former county employee salaries at their June 30, 2002 level, and protects them from reductions based on branch wide pay plan implementation, which becomes effective on July 1, 2003. However, there was no provision for increasing employee pay that falls below the minimum pay range specified in the pay plan. Court staff identified 25.00 FTE below the minimum level for whom they are requesting additional pay.
- o Additional rent for the federal building - \$214,400 is requested as a present law adjustment. SB 176 expressly excluded additional rent costs.
- o Court automation - \$3,400,000 is requested as a new proposal under the Supreme Court Program. Court automation was not mentioned in SB 176.
- o Variable costs - \$17.2 million for which the executive intends to propose legislation to sort out these costs.

The remaining items will be handled without additional funding and include:

- o Grant funded positions – these are positions funded through a federal grant to the Board of Crime Control and reimbursed by the Judiciary that were not addressed in SB 176. The Judiciary intends to move these employees into authorized FTE positions as vacancies occur.
- o Former county employee accrued leave - SB 176 allowed the transfer of accumulated sick leave, vacation leave, and years of service to the state. The Judiciary is responsible for payout of these balances as employees leave their state job. Estimated accrued leave transferred to the state includes 44,000 hours of annual leave, 91,000 hours of sick leave, and 4,000 hours of excess annual leave.

Personal Services

Personal services costs are higher in the 2003 biennium than anticipated. There are three actions that have contributed to a higher than anticipated personal services budget. These include pay increases provided to some county employees in the year prior to state assumption, the July 1, 2002 implementation of the fiscal 2003 pay raise for the new county employees, and costs of the 8.50 FTE approved by the 2001 legislature.

First, in the fall of 2001, the District Court Council and state budget director became aware of significant salary increases granted in some judicial districts/counties in anticipation of state assumption. The District Court Council directed the Supreme Court Administrator to collect fiscal 2001 and 2002 district court budgets from the judges. However, not all counties submitted their budgets. But, through information collected by the Department of Revenue from contacts with various county financial officers, at least 14 employees in 4 judicial districts were given raises ranging from 6 to 34 percent at an approximate cost of \$20,000 per district.

Next, Section 59 of SB 176 specified that former county employees who become state employees are entitled to the person's June 30, 2002 salary and compensation. In addition, the person is entitled to a pay increase equal to the average pay increase for existing judicial branch employees in fiscal 2003. However, increases for the former county employees, estimated at \$360,000, were not funded in HB 13, the state pay plan bill. All Judiciary Branch employees, including the former county employees, were given a 4 percent pay increase on July 1, 2002. Although SB 176 allowed this, HB 13 did not fund it for the 245.00 FTE former county employees. Also, HB 13 included a delayed implementation date for the pay increases, so Judiciary Branch employees received their raises three months ahead of most other state employees at an estimated cost of \$90,000 for former county employees and \$22,000 for existing Judiciary staff.

Finally, as discussed earlier, costs of the 8.50 FTE authorized by the 2001 legislature are about \$365,100 higher than anticipated due to the type of positions hired and salaries provided.

The impact of these actions is that the "fixed" component of the district court budget will be higher, leaving less for the variable component.

Variable Costs

As stated, variable costs consist of those expenses that vary with caseload including jury fees, witness fees, psychiatric exams, a percentage of court reporting services and indigent defense in criminal cases. Since 1985, county costs for these items have been reimbursed through the district court criminal reimbursement program, funded from a percentage of the motor vehicle tax. Excess funds are distributed in the form of grants to the counties. The "2001 Annual Report of the Montana Judiciary" reported that county expenses were covered at 100 percent in fiscal years 1999, 2000, and 2001 and about \$244,500 was distributed in grants to 38 eligible counties in 2001. Total 2001 available funds were approximately \$6.0 million. Yet the Judiciary has projected additional costs up to \$17.2 million over the next biennium beyond the executive proposed \$15.1 million.

With district court assumption, the criminal reimbursement program goes away and the state assumes the costs. During the first year, any costs beyond the appropriated funding level are the responsibility of the counties, in accordance with SB 176. The District Court Council has decided to reimburse counties at 65 percent to ensure equity amongst all counties and ensure funding through the end of the year. Beginning July 1, 2003 the state will be responsible for the total variable costs. The most significant cost is indigent defense.

Indigent Defense - The 6th Amendment to the U. S. Constitution provides every person with a right to adequate and effective representation when charged with a crime punishable by imprisonment. State statute (46-8-101, MCA) also

mandates state-funded representation when a person who has been charged with a felony is determined to be indigent. The two methods used in Montana for delivering these constitutionally guaranteed services are through in-house public defenders and a system known as appointed or assigned counsel. A few of the more populated Montana counties have public defender offices with full-time or part-time attorney's who provide indigent defense counsel as government employees. Most rural Montana counties contract out the work.

Two issues regarding these costs include:

- Variability and lack of predictability of these costs; and
- Lack of control by the state. With state assumption, there is no incentive for the counties to control the costs.

Two factors that could be looked at to try to contain costs include attorney fees for indigent defense and the definition of indigent. During the annual MACO conference, some rural counties indicated that they've seen significant increases in their contracts. Statute does not specify a maximum rate for indigent defense, yet many states do set a maximum in an effort to provide statewide consistency and to control costs. Judiciary staff has been tracking expenses to try and identify a reasonable cost. At its November 15, 2002 meeting, the District Court Council set as a guideline, a maximum fee of \$60 per hour for court appointed counsel (including guardian at litem) and \$400 per case for CASA. Costs related to psychological examinations also seem to vary amongst districts and are being tracked for consideration by the council.

In addition, Montana's statute regarding indigents is vague and leaves the eligibility determination to each court's discretion based on submitted financial data.

“46-8-111. Eligibility for court-appointed counsel -- determination of indigence. The court shall make a determination of indigence.

- (2) In applying for court-appointed counsel, a defendant shall submit a sworn financial statement demonstrating financial inability to obtain legal representation without substantial hardship in providing for personal or family necessities.”

Standards used in other states include such things as requiring net monthly income after expenses to be below a specified dollar amount or a certain percent of federal poverty guidelines with specific asset limits, or if the applicant is eligible for certain means tested public benefits programs.

Implementing objective indigent standards could help control costs. Some other mechanisms used by states to help defray costs include charging a minimal administrative or application fee to all indigent defense criminals, including a surcharge on court filings, and including an additional fee on attorney licenses that is deposited into an indigent defense fund.

Options

In order to deal with the uncertainties regarding costs associated with state assumption of district courts, options are provided. The following options would create a partnership between the state and counties in funding variable costs of district courts. A 2001 National Association of Counties report indicated that 24 of the 100 largest counties in the nation funded the entire cost of indigent defense services, and another 25 counties funded 75 percent of the costs. Another 8 counties received 100 percent funding from the state and 23 others received 75 percent funding from the state.

- Provide an incentive to the counties to help control costs by either reducing funds, increasing funds, or through cost sharing. Counties have some ability to influence district court costs. For example, for involuntary commitment proceedings it is the county attorney's decision whether to use the state hospital or more expensive local hospitals for an emergency detention under 53-21-129, MCA. Also, judges decide whether psychiatric examinations will be done by local professionals or through the state hospital, which for this service is more expensive. Under state assumption, costs are no longer a county responsibility and there is no incentive for them to try and minimize district court costs.
- Continue the 65 percent reimbursement mechanism established by the District Court Council for fiscal 2003. A report by the Bureau of Justice Statistics entitled “Indigent Defense Service in Large Counties, 1999” indicates

that traditionally counties have provided 60 percent of all funds for indigent criminal defense services in the largest 100 counties while state governments provided 25 percent.

- Establish a base amount that counties would pay for variable costs with the state funding everything above that amount. This would ease the budgeting process at the county level, as they would have a fixed cost responsibility and at the same time, lower the expense to the state.

The following options could generate funds to offset state general fund used to pay variable costs of district courts. However, the amount of funds generated would be minimal compared to the overall costs. Also, the administrative burden to collect and track the funds could outweigh the benefit.

- Implement an administrative fee for all indigent defense criminals. Some states require applicants to pay a fee to be considered for court appointed counsel. Fees can be paid over time depending on the financial capability of the applicant. Other states require defendants to reimburse the state for the costs of their counsel. Judges may set the amount based on the person's ability to pay. 46-8-113, MCA allows courts to require a convicted defendant to pay the costs of court-appointed counsel as a part of or condition under the sentence imposed, but only within their ability to pay.
- Standardize attorney fees, investigation fees, and psychiatric examination fees for indigent defense. For example, Iowa's hourly fee for legal defense of indigent persons ranges from \$45 to \$60 per hour depending on the type of offense. Other states and counties set a flat fee such as \$750 as a retainer for the first 15 hours of service and \$50 per additional hour up to a \$1,500 maximum. As of November 15, 2002, the District Court Council set as a guideline, \$60 per hour for court appointed counsel and \$400 per case for CASA. The council is also exploring maximum fees for psychiatric examinations.
- Implement a surcharge on court filings. There is already a \$5 automation surcharge that generates approximately \$1 million annually, but is scheduled to sunset at the end of fiscal 2003. However, legislation to continue and double the fee to fund information technology for the Judicial Branch is proposed. If approved, collections would be near \$4.0 million based on historical automation surcharge revenue. The Executive Budget requests \$3.4 million to fund judicial branch information technology needs. The legislature may want to consider directing the excess or a portion of the funds to variable costs of district courts. Additional legislation is proposed to add a \$7 surcharge on criminal and civil filings in courts of limited jurisdiction under the Department of Justice budget to fund the Law Enforcement Academy.
- Increase district court fees. There are currently about 24 district court fees deposited to the state general fund that range from \$1.00 for oath or jurat with seal to \$2,500 for filing a judgment against a foreign capital depository. Since 1991, almost half of the fees were increased by an average of \$25 and four new fees were added. Fees deposited to the state general fund that have not been increased since 1991 include certification with a seal, oath or jurat with a seal, filing for transfer from another county, declaration of marriage, substitution of a judge, and registering a process server.

Figure 3

District Court Fees

Statute	Fee Description	Current Fee Amount	Amount deposited in State CF 1-Jul-02	History of Fee Increases	1981	1983	1985	1987	1989	1991	1993	1995	1997	1999
MCA														
25-1-201(a)	Commencement of action or proceeding from the plaintiff or petitioner*	\$90.00	\$81.00	\$25.00	\$60.00			\$60.00		\$80.00				\$90.00
	(a) Filing a Complaint in Intervention, by the intervenor	\$80.00	\$80.00	\$20.00	\$60.00	\$25.00		\$60.00		\$80.00				
	(a) Commencement of petition for dissolution of marriage*	\$160.00	\$116.00	\$0.00	\$100.00	\$25.00	\$30.00	\$100.00		\$120.00			\$150.00	\$160.00
	(a) Commencement of petition for legal separation**	\$150.00	\$115.00	\$0.00					\$100.00	\$120.00			\$150.00	
	(a) Petition for contested amendment of final parenting plan	\$120.00	\$120.00	\$0.00									\$120.00	
	(b) Appearance of each defendant or each respondent	\$60.00	\$60.00	\$15.00	\$40.00			\$40.00		\$60.00				
	(c) Entry or renewal of Judgment, from prevailing party	\$45.00	\$45.00	\$10.00	\$25.00			\$25.00		\$45.00				
	(d) For preparing copies: \$.50 per page for first five pages of each file per request and .25 per page thereafter***	\$ 50's, \$.25 each after	\$0.00	\$0.25	\$0.50			\$0.50						
	(e) For certification with a seal	\$2.00	\$2.00	\$0.50	\$2.00			\$2.00						
	(f) For oath or jurat with seal	\$1.00	\$1.00	\$0.50	\$1.00			\$1.00						
	(g) For searching court records, per year, per name (not to exceed \$25.00)***	\$0.50	\$0.00	\$0.25	\$0.50			\$0.50						
	(h) Filing/docketing: transcript of judgment, or transcript of docket from other courts	\$45.00	\$45.00	\$5.00				\$25.00	\$45.00					
	(i) Execution or orders of sale on foreclosure of lien	\$5.00	\$5.00	\$2.00	\$5.00			\$5.00						
	(j) Transmission of records or files to another court***	\$5.00	\$0.00	\$5.00										
	(k) For filing a transfer from another county (includes lower court appeals)	\$10.00	\$10.00	\$10.00										
	(l) Issuing a marriage license - declaration of marriage	\$30.00	\$30.00	\$15.00	\$30.00									
	Application for probate, guardianship or conservatorship case when commenced, includes filing of the will; ancillary (m) with Montana letters issued	\$70.00	\$70.00	\$35.00	\$50.00			\$50.00		\$70.00				
	(n) Filing of letters, bonds inventory by a foreign personal representative of nonresident decedent estate	\$55.00	\$55.00	\$0.00		\$35.00				\$55.00				
	(o) Filing declaration of marriage without solemnization	\$30.00	\$30.00	\$30.00										
	(p) Substitution of Judge (charge governmental agencies - excluding criminal cases	\$100.00	\$100.00	\$0.00	\$100.00									
	(q) At the commencement of each Petition for Adoption****	\$75.00	\$5.00	\$0.00									\$75.00	
25-1-1103	For registering process server	\$100.00	\$100.00	\$0.00	\$100.00			\$100.00						
25-9-506(1)	Filing a foreign judgment	\$60.00	\$60.00	\$0.00										
25-9-506(2)	Filing judgement against a customer of a foreign capital depository	\$2,500.00	\$2,500.00	\$0.00	\$60.00			\$60.00					\$2,500.00	
25-9-804	Recognition of judgement in a foreign state against a foreign capital depository cust	\$2,500.00	\$2,500.00	\$0.00									\$2,500.00	
25-1-202	Additional Filing Fee for Civil Action (Fee for Court Reporter)	\$20.00	\$20.00	\$3.00	\$10.00			\$10.00					\$20.00	
27-9-103	Confession of judgement	\$45.00	\$45.00	\$10.00	\$25.00			\$25.00				\$45.00		

* \$5 deposited in childrens trust fund, \$9 deposited in the civil legal assistance for indigent victims of domestic violence account, \$30 deposited in the partner & family member assault intervention & treatment fund

** \$5 deposited in childrens trust fund, \$30 deposited in the partner and family member assault intervention & treatment fund

*** These fees must be deposited in the county district court fund

****\$70 deposited into a state special revenue account for costs of the DPHS in completing or contracting for adoption services

July 15, 2002

- Consolidate staff amongst judicial districts. In the final report of the Court Funding and Structure Committee, MACO indicated that a benefit of state assumption was that cost containment could be achieved through examples such as staff consolidation and work share programs. The District Court Council is currently going through a resource allocation process and will consider shifting positions and resources between judicial districts to establish equity amongst counties. But, the council does not intend to consolidate positions.
- Implement an attorney fee that would be deposited into an indigent defense fund. According to the American Bar Association website, Minnesota, Ohio and Oregon are the only states with a fee on attorney registrations to fund civil legal services for the poor. Minnesota's fee is \$50 (\$25 for new attorneys admitted three years or less) and raised \$894,000 in 2000. Ohio uses \$375,000 of attorney registration revenue for civil legal services. Specifics were not provided for Oregon. Also, 24 states have a voluntary add-on option with their bar dues, generating from \$2,000 in Washington to \$515,000 in Texas. Attorneys in Montana currently pay an annual \$25 license tax and an additional \$245 for state bar dues and other fees. There are approximately 3,700 attorneys registered with the Montana State Bar. Doubling the license tax would provide about \$92,500. However, if each registered attorney donated one hour of their salary per year, assuming \$100 per hour average attorney salary, \$370,000 could be generated. The legislature generally defers the decision of what level of fees to implement to the court.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	34.75	0.00	16.00	50.75	0.00	16.00	50.75	50.75
Personal Services	2,419,693	(52,538)	671,641	3,038,796	(56,837)	674,694	3,037,550	6,076,346
Operating Expenses	950,362	204,279	668,460	1,823,101	193,964	638,852	1,783,178	3,606,279
Equipment	0	0	0	0	0	0	0	0
Grants	0	0	480,849	480,849	0	480,849	480,849	961,698
Total Costs	\$3,370,055	\$151,741	\$1,820,950	\$5,342,746	\$137,127	\$1,794,395	\$5,301,577	\$10,644,323
General Fund	2,941,468	113,252	0	3,054,720	99,072	0	3,040,540	6,095,260
State/Other Special	55,000	95,000	1,747,342	1,897,342	95,000	1,721,019	1,871,019	3,768,361
Federal Special	373,587	(56,511)	73,608	390,684	(56,945)	73,376	390,018	780,702
Total Funds	\$3,370,055	\$151,741	\$1,820,950	\$5,342,746	\$137,127	\$1,794,395	\$5,301,577	\$10,644,323

Program Description

The Supreme Court has appellate jurisdiction for the State of Montana. It has original jurisdiction to issue, hear, and determine writs of habeas corpus and other such writs as may be provided by law. It also has general supervisory control over all other courts in the state. The Supreme Court is charged with establishing rules governing appellate procedure, the practice and procedure for all other courts, admission to the bar, and the conduct of its members. The Supreme Court consists of a Chief Justice and six justices. SB 176, approved by the 57th Legislature, mandated state funding of Montana District Courts with general fund revenue. The change to state funding made district courts part of the Judicial Branch of state government and made the Supreme Court responsible for the management of district court costs and operations. The Supreme Court also administers the local citizen review board program for foster care placements, the federal court assessment program, and the court-appointed special advocate program.

Program Narrative

Supreme Court Operations Major Budget Highlights	
○ Total funding increases nearly \$2.0 million per year over fiscal 2002 expenditures ○ \$100,000 per year general fund increase is due to statewide present law adjustments and proposed pay increases for 2.00 FTE ○ State special revenue increases \$1.7 million per year to fund Judicial Branch information technology and is contingent on legislation that increases and continues the information technology surcharge (approval of the IT funding would add 14.00 FTE to the Supreme Court) ○ 2.00 federally funded FTE are requested including a federal grant manager and court assessment program coordinator	
Major LFD Issues	
○ Potential negative fund balance in legal assistance account due to expenditure level ○ Request for funding when funds are already contained in the base ○ Judicial Branch Information Technology	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Supreme Court Operations						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 2,941,468	87.3%	\$ 3,054,720	57.2%	\$ 3,040,540	57.4%
02342 Court Automation Surcharge	-	-	1,747,342	32.7%	1,721,019	32.5%
02399 Boards And Commissions - Mji	-	-	-	-	-	-
02536 Legal Assistance	55,000	1.6%	150,000	2.8%	150,000	2.8%
02693 Air Transportation Special Revenue	-	-	-	-	-	-
02919 Csed Registry - Dphhs	-	-	-	-	-	-
03230 Fed Grant-Pass-Thru-Jud	170,290	5.1%	204,341	3.8%	204,054	3.8%
03352 Child Sup-Missoula Project-Fs	203,297	6.0%	186,343	3.5%	185,964	3.5%
Grand Total	\$ 3,370,055	100.0%	\$ 5,342,746	100.0%	\$ 5,301,577	100.0%

This program is funded with a combination of general fund, state special revenue funds, and federal special revenue funds. General fund supports Supreme Court operations, legislative audits, and the foster care review board program, and provides matching funds for the federal court assessment program and the court-appointed special advocate program.

State special revenue comes from a user surcharge of \$5 on court filings and totals nearly \$1.0 million per year. There is a proposal to increase the surcharge to \$10 to fund judicial branch information technology needs. This program also receives \$9 of the filing fee for divorce cases, generating approximately \$95,000 per year to pay for legal defense of indigent victims of domestic violence. Federal grant funds support the court assessment program, the court-appointed special advocate program, and the foster care review board.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				(60,241)					(64,540)
Vacancy Savings				0					0
Inflation/Deflation				3,022					3,361
Fixed Costs				106,257					95,603
Total Statewide Present Law Adjustments				\$49,038					\$34,424
DP 1001 - Pay Plan Implementation									
0.00	7,703	0	0	7,703	0.00	7,703	0	0	7,703
DP 1003 - Legal Assistance for Domestic Violence Victims									
0.00	0	95,000	0	95,000	0.00	0	95,000	0	95,000
Total Other Present Law Adjustments									
0.00	\$7,703	\$95,000	\$0	\$102,703	0.00	\$7,703	\$95,000	\$0	\$102,703
Grand Total All Present Law Adjustments				\$151,741					\$137,127

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1001 - Pay Plan Implementation - The District Court assumption bill directed the Judicial Branch to develop and implement a branch-wide classification and compensation plan by July 1, 2003. The National Center for State Courts, following extensive review, recommended a classification and pay plan, which was approved by the Montana Supreme

Court in June 2002. The plan established a grade system with a minimum and maximum pay rate for each pay grade. The pay rates are based in large part on the Executive Branch pay plan. Employees were placed on the system at their county rate of pay. Starting in July 2003, employees above the maximum rate will be frozen until the pay matrix moves enough to "catch-up" with these employees. There are currently two employees below the minimum rate in this program. This proposal would move these employees to the minimum pay rate for the assigned grade.

LFD COMMENT

This proposal adjusts the pay for 2.00 of the 25.00 FTE below the minimum pay level as determined under the judicial branch pay plan for an annual general fund cost of \$7,703. SB 176 directed the Supreme Court to develop and adopt the plan but did not address increasing salaries that fall below the minimum level.

DP 1003 - Legal Assistance for Domestic Violence Victims - This request asks for a state special revenue appropriation for funds distributed from the marriage dissolution fee at the level of estimated revenues collected. The 1999 legislature established this fee to provide legal assistance to indigent victims of domestic abuse.

LFD ISSUE

Fund Adequacy and Base Expenditures

25-1-201 (3)(a) and (6), MCA requires that \$9.00 of the \$90 civil filing fee and \$160 divorce fee must be deposited into the civil legal assistance for indigent victims of domestic violence account for the sole purpose of "providing legal representation for indigent victims in civil matters in domestic violence cases and for alternative dispute resolution initiatives in family law cases." \$55,000 of actual expenditures is included in the fiscal 2002 base. This proposal would bring the total appropriation to \$150,000, equivalent to the fiscal 2002 appropriation level and executive projected annual revenues. However the highest level of revenues collected in the three years of the account's existence was about \$97,000 in fiscal 2002. If this proposal is approved for both fiscal 2004 and 2005 and average annual revenue increases are less than 9 percent, the impact would be a possible negative fund balance in fiscal 2005. Civil and domestic case filings increase by about 8 percent from 2000 to 2001. Based on the potential negative fund balance and fiscal 2002 expenditures in the base budget, the legislature may wish to remove \$55,000 from each year of the 2005 biennium budget.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1101 - Grant Manager										
01	1.00	0	0	43,618	43,618	1.00	0	0	43,473	43,473
DP 1103 - Court Assessment Program										
01	1.00	0	0	29,990	29,990	1.00	0	0	29,903	29,903
DP 8001 - Judicial Branch Information Technology (Requires Legislation)										
01	14.00	0	1,717,620	0	1,717,620	14.00	0	1,691,297	0	1,691,297
DP 8003 - Computer Replacement (Requires Legislation)										
01	0.00	0	29,722	0	29,722	0.00	0	29,722	0	29,722
Total	16.00	\$0	\$1,747,342	\$73,608	\$1,820,950	16.00	\$0	\$1,721,019	\$73,376	\$1,794,395

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1101 - Grant Manager - The Judicial Branch is requesting a 1.00 FTE grant funds manager to be responsible for developing a system to track all grant applications and awards, including managing the funds and preparing required financial and narrative reports. The goal is to acquire additional grant funding and ensure that funds received are spent within grant guidelines.

**LFD
COMMENT**

This proposal adds federal authority for an additional FTE. Federal funds have not yet been identified. According to judiciary staff any required match would be provided through in-kind services. The court hired a half-time grant specialist in August 2002 under the District Court Operations program as part of the new 8.50 FTE authorized by the 2001 legislature. According to the Judiciary, the half-time position primarily identifies and applies for grants. The requested position would manage the financial aspects of grants received and ensure compliance with grant requirements.

DP 1103 - Court Assessment Program - This proposal requests federal funding of \$29,990 in fiscal 2004 and \$29,903 in fiscal 2005 to continue the evaluation and improvement of how the judicial system handles child abuse and neglect proceedings. The 1997 legislature originally authorized this program and the federal government has continued to extend funding.

**LFD
COMMENT**

This proposal would provide federal authority for and make permanent an FTE that has been funded in prior years through a modified position. There are sufficient matching funds of \$7,500 contained in the base budget. The duties of this position include staffing a statewide child abuse and neglect advisory committee and implementing its programs and processes.

**LFD
ISSUE**

The 2001 legislature provided a general fund appropriation of \$100,000 over the biennium for local CASA/GAL programs, which attempt to prevent child abuse and neglect in local communities. Due to state assumption, CASA/GAL programs are now funded under the district courts, so continuing the biennial appropriation in fiscal 2004 is not necessary. Actual expenditures from the biennial appropriation in the fiscal 2002 base were about \$48,500. The legislature may wish to reduce general fund in this program by \$48,500 each year to remove funds carried forward in the base from the biennial appropriation.

The Court Assessment Program was established in June of 1995. It is funded through a federal grant with a 25 percent state match to improve the court system in child abuse and neglect cases. The purpose of the program is to assess the court system, make recommendations based on that assessment, and implement those recommendations to improve the system for children and families. CASA is a program created as a result of the Court Assessment Program.

DP 8001 - Judicial Branch Information Technology (Requires Legislation) - The executive requests approximately \$3.4 million state special revenue funding for the 2005 biennium to provide for branch-wide information technology needs. The existing automation surcharge is scheduled to sunset June 30, 2003. HB 18 would repeal the sunset and increase the surcharge from five to ten dollars. The current charge generates revenues of approximately \$1 million per year. Doubling the surcharge would generate enough revenue to offset the request of \$3.4 million over the biennium. This decision package is contingent on passage and approval of HB 18. This proposal includes funding to provide 14.00 IT staff, related start-up and operating costs, and replacement equipment.

The existing (until 6/30/03) automation program provides system support, training, workstations, file servers, connectivity, and software to all Montana (MT) courts. The current IT environment includes two software applications used in MT courts. First, the Judicial Case Management System (JCMS) is an application developed by the Office of the Court Administrator (OCA) and is the primary product used by district courts and district court clerks to capture and report information, manage cases, and collect and distribute money related to district court operations. The second program supported by the IT division is "Full Court." Full Court is a program licensed from Justice Systems Incorporated that provides case management functionality to the limited jurisdiction courts. Overall, the IT division uses available resources to provide the above described services and equipment to almost 1,000 state and county and city staff across the state.

**LFD
ISSUE**

3-1-317, MCA establishes a user surcharge to fund court information technology. The \$5 surcharge applies to defendants in criminal cases, the initiating party in civil and probate cases, and defendants in civil cases.

This proposal continues and expands information technology funding for the Judicial Branch. The current fee generates approximately \$1.0 million dollars per year and funds 6.00 FTE (five information technology specialists, and one information systems analyst) and their associated operating costs at about \$860,000 per year. Staffing would increase to 14.0 FTE adding five network support staff, one help desk and two staff programmers. The detailed budget request includes:

- o \$1,200,000 personal services
- o \$961,700 grants from state sources
- o \$724,700 supplies & materials
- o \$22,000 communications
- o \$180,800 travel
- o \$5,500 rent
- o \$304,300 other services
- o \$9,600 other expense

The majority of the supplies and materials budget would fund computer replacements for former county staff assumed by the state (312), clerk of court staff (225) and limited courts staff (156 courts 2 workstations per court) on a four-year replacement schedule, approximately 212 per year at \$1,351 per computer.

The neighboring states of Idaho, Wyoming and South Dakota also fund their judicial information technology system through a surcharge. Idaho's \$5 surcharge generates about \$1.2 million annually and funds 10.00 FTE and their operating costs. South Dakota receives 95 percent of its automation budget from filing fees and has 13.00 FTE performing IT functions. Wyoming's fee is \$20 with \$10 deposited into a state special revenue account for court automation and \$10 deposited into the general fund. The IT program has 5.00 FTE and most of the work is done through contracted services.

Court automation funding has been provided through the Montana legislature since the late 80's, with the court automation surcharge first authorized by the 1995 legislature. Prior to implementation of the surcharge the Judiciary spent over \$1.2 million general fund on court automation activities to 1) evaluate court technology nationwide; 2) install and purchase computers for a portion of the courts across the state; 3) develop the Montana Judicial Case Management System and the Limited Judicial Case Management System; 4) provide technical assistance and staff support to judicial branch users statewide. The funds expended came from various sources including discontinued Department of Community Affairs funds and unspent district court criminal reimbursement funds.

Since implementation of the surcharge by the 1995 legislature, the Judiciary has spent over \$5.8 million of surcharge collections of which 50 percent was for hardware and software purchases for courts at the county and municipal level, 35 percent was expended on personal services, and the remaining 15 percent was expended on operating costs that consist mostly of travel expenses. The initial legislation had a termination date of June 30, 1999. The date was extended to June 30, 2003 by the 1999 legislature. This proposal will make the automation surcharge permanent.

During the current biennium, the Judicial Branch has hired their first information technology manager and drafted their first Information Technology Strategic Plan through collaboration with staff of the state's chief information officer and the Commission on Technology established by order of the Supreme Court. This plan will guide future IT initiatives and funding requests to fulfill the IT mission of "providing systems, applications, and tools that allow stakeholders appropriate exchange of information in a standardized, flexible, reliable, secure, cost effective, and efficient environment."

**LFD
ISSUE
(continued)**

Current biennium accomplishments include establishing e-mail communication and electronic payroll for 300 new district court staff; establishing on-line Supreme Court opinions, appellate briefs, and official rules and orders through the law library; and providing technical support to 925 state, county and city staff across the state. Future plans for the requested funding include:

- Elimination, replacement or upgrade of existing state operated file servers used for support of the Judicial Case Management System (JCMS)
- Upgrade or replacement of JCMS
- Establishment of a 4-year replacement cycle for all supported computer equipment
- Complete deployment of Full Court to Courts of Limited Jurisdiction to replace limited jurisdiction court management system (LJCMS)
- Compliance with state standards for hardware, software, and policy
- Better utilization of state's IT resources to provide desktop services and support to end-users
- Replacement of Supreme Court's Case Management System

There is a \$149,000 current fund balance in the account, so if the increase and continuation of the fee are approved there would be sufficient funding to support this proposal. The legislature may want to review whether the division is successful, whether it's heading in the right direction, and whether it warrants funding in future biennia. Although the draft strategic plan identifies goals and objectives, specific outcome measures are not included. Such measures could include:

- Less than a certain percentage of equipment, hardware, software and applications is obsolete or deficient
- Develop branchwide standards for software, hardware, security, communication, and application by a specific date
- Increase hits on web-site by a certain percentage
- A percentage target for connectivity of all field offices

In an effort to determine the effectiveness of this effort, the legislature may want to request that the judiciary identify some performance measures related to objectives of the strategic plan or in addition to those identified in the plan for the next biennium and report back the results to the following legislature or an interim committee. In addition, if HB 18 is approved, the legislature may wish to extend rather than make permanent the automation surcharge.

DP 8003 - Computer Replacement (Requires Legislation) - This request is for computer replacement on a four-year replacement cycle. There are 88 devices with 25 percent, or 22 machines, being replaced each year of the biennium. These machines are for the Clerk of Court, Law Library, Supreme Court Justices and Court Administration personnel. This proposal is funded with a continuation of information technology surcharge funds, which are scheduled to sunset but recommended to be ongoing contingent on passage and approval of HB 18.

**LFD
ISSUE**

\$35,700 was expended on computers throughout the agency in fiscal 2002 and included in the base. If this proposal is approved, the legislature may want to reduce general fund by this amount in each year.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	3.00	0.00	0.00	3.00	0.00	0.00	3.00	3.00
Personal Services	79,475	34,495	0	113,970	34,434	0	113,909	227,879
Operating Expenses	169,218	941	0	170,159	1,015	0	170,233	340,392
Total Costs	\$248,693	\$35,436	\$0	\$284,129	\$35,449	\$0	\$284,142	\$568,271
General Fund	248,693	35,436	(25,000)	259,129	35,449	(25,000)	259,142	518,271
State/Other Special	0	0	25,000	25,000	0	25,000	25,000	50,000
Total Funds	\$248,693	\$35,436	\$0	\$284,129	\$35,449	\$0	\$284,142	\$568,271

Program Description

The Boards and Commissions Program oversees functions assigned to the Supreme Court either by legislative or constitutional mandate. The program manages judicial discipline, rules, and other substantive matters aimed at improving and maintaining the administration of justice. Commissions and boards included in the program are the Judicial Standards Commission; Sentence Review Division; Commission on Practice; Commission on Courts of Limited Jurisdiction; and the Judicial Nominations Commission.

Program Narrative

Boards and Commissions	
Major Budget Highlights	
o	Funding increases about \$35,450 per year or 14.2 percent over fiscal 2002 expenditures
o	A funding switch, replacing \$25,000 general fund with state special revenue from training and registration fees charged to judges of courts of limited jurisdiction, is proposed
Major LFD Issues	
o	Base expenditures for consultant and professional services do not reflect a typical year

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Boards And Commissions						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 248,693	100.0%	\$ 259,129	91.2%	\$ 259,142	91.2%
02399 Boards And Commissions - Mji	-	-	25,000	8.8%	25,000	8.8%
Grand Total	\$ 248,693	100.0%	\$ 284,129	100.0%	\$ 284,142	100.0%

This program is funded with general fund. Minimal costs are recovered through a fee imposed by the Courts of Limited Jurisdiction for training and attorney investigation repayments. These funds are subsequently deposited to the general fund. The executive proposes a funding switch that would retain these funds in a state special revenue account.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				34,495					34,434
Vacancy Savings				0					0
Inflation/Deflation				949					1,023
Fixed Costs				(8)					(8)
Total Statewide Present Law Adjustments				\$35,436					\$35,449
Grand Total All Present Law Adjustments				\$35,436					\$35,449

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

**LFD
ISSUE** Fiscal 2002 expenditures for consultant & professional services were about \$74,000 greater than previous years due to significant costs of the Judicial Standards Commission for a pornography case involving a lower court judge in Great Falls. "Investigative costs" paid to investigating attorneys are charged to consultant and professional services. Since fiscal 2002 expenditures do not reflect a typical year, the legislature may want to consider reducing general fund by \$74,000 or a portion thereof.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2101 - Courts of Limited Jurisdiction Funding Switch										
02	0.00	(25,000)	25,000	0	0	0.00	(25,000)	25,000	0	0
Total	0.00	(\$25,000)	\$25,000	\$0	\$0	0.00	(\$25,000)	\$25,000	\$0	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 2101 - Courts of Limited Jurisdiction Funding Switch - This proposal requests \$25,000 state special revenue each year to replace current general fund used to provide training for judges of courts of limited jurisdiction. Class registration fees will provide the source of state special revenue.

LFD COMMENT

Up until fiscal 2002, these fees were collected and deposited into the general fund. A state special revenue account was established and now funds are deposited to it. Therefore, there is no impact to the general fund.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	7.50	0.00	0.00	7.50	0.00	0.00	7.50	7.50
Personal Services	325,725	(11,308)	0	314,417	(9,497)	0	316,228	630,645
Operating Expenses	128,123	698	0	128,821	709	0	128,832	257,653
Equipment	329,311	0	0	329,311	0	0	329,311	658,622
Total Costs	\$783,159	(\$10,610)	\$0	\$772,549	(\$8,788)	\$0	\$774,371	\$1,546,920
General Fund	783,159	(10,610)	0	772,549	(8,788)	0	774,371	1,546,920
Total Funds	\$783,159	(\$10,610)	\$0	\$772,549	(\$8,788)	\$0	\$774,371	\$1,546,920

Program Description

The State Law Library houses reference materials used by the Supreme Court, lower courts, the legislature, state officers and employees, members of the bar, and the general public. The collection includes legal materials from the federal government and all 50 states, as well as Canada. Some of the books and materials contained in the library include treatises, law reviews, reports, microfilm, and audio/video tapes for continuing legal education. Access to much of this material is provided through the library's Internet site. A Board of Trustees, consisting of the Supreme Court justices, governs the library.

Program Narrative

Law Library Major Budget Highlights	
○	Program funding is reduced approximately 1.3 percent over fiscal 2002 actual expenditures due to a personal services decrease in the adjusted base
○	Additional present law adjustments or new proposals are not included

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Law Library						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 783,159	100.0%	\$ 772,549	100.0%	\$ 774,371	100.0%
Grand Total	\$ 783,159	100.0%	\$ 772,549	100.0%	\$ 774,371	100.0%

This program is funded with general fund. Minimal costs are recovered through fees charged for copies, faxes, and rental of audio/video cassettes. These fees are deposited to the general fund.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				(11,308)					(9,497)
Vacancy Savings				0					0
Inflation/Deflation				698					709
Total Statewide Present Law Adjustments				(\$10,610)					(\$8,788)
Grand Total All Present Law Adjustments				(\$10,610)					(\$8,788)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Proprietary Rates

Program Description

Law Library Searches/Research Enterprise Fund - The law library is billed by the on-line provider for the air time, and the law library in turn bills the requesting entity for the cost of the search performed.

Revenues and Expenses

The Law Library staff performs on-line searches/research for public and private entities. The law library is billed by the on-line provider for the air time and the Law Library, in turn, bills the entity requesting the search/research, collects the money and pays the provider.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name						
06019	Judiciary Law Library	21100	Judiciary	Law Library						
					actual	actual	actual	budgeted	budgeted	budgeted
					FY00	FY01	FY02	FY03	FY04	FY05
Operating Revenues:										
Fee revenue										
	Law Library Legal Research				39,899	31,425	47,200	49,500	50,000	50,000
	Net Fee Revenue				-	-	-	49,500	50,000	50,000
Investment Earnings										
	Securities Lending Income				-	-	-	-	-	-
	Premiums				-	-	-	-	-	-
	Other Operating Revenues				39,899	31,425	47,200	-	-	-
	Total Operating Revenues				39,899	31,425	47,200	49,500	50,000	50,000
Intrafund Revenue										
	Net Operating Revenues				39,899	31,425	47,200	49,500	50,000	50,000
Operating Expenses:										
Personal Services										
					-	-	-	-	-	-
	Other Operating Expenses				36,962	41,118	43,090	36,962	50,000	50,000
	Miscellaneous, operating				-	-	-	-	-	-
	Miscellaneous, other				-	-	-	-	-	-
	Total Operating Expenses				36,962	41,118	43,090	36,962	50,000	50,000
Intrafund Expense										
	Net Operating Expenses				36,962	41,118	43,090	36,962	50,000	50,000
Operating Income (Loss)					2,937	(9,693)	4,110	12,538	-	-
Nonoperating Revenues (Expenses):										
Gain (Loss) Sale of Fixed Assets										
					-	-	-	-	-	-
Federal Indirect Cost Recoveries										
					-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)										
	Net Nonoperating Revenues (Expenses)				-	-	-	-	-	-
Income (Loss) Before Operating Transfers					2,937	(9,693)	4,110	12,538	-	-
Contributed Capital										
					-	-	-	-	-	-
Operating Transfers In (Note 13)										
					-	-	-	-	-	-
Operating Transfers Out (Note 13)										
					-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated					-	3,069	(6,624)	(2,514)	10,024	10,024
Net Income (Loss)					2,937	(9,693)	4,110	12,538	-	-
Retained Earnings/Fund Balances - June 30					2,937	(6,624)	(2,514)	10,024	10,024	10,024
60 days of expenses										
(Total Operating Expenses divided by 6)					6,160	6,853	7,182	6,160	8,333	8,333

Fee/Rate Information:

The law library performs on-line searches/research for public & private entities. The law library is billed by the on-line provider for the air time; the library, in turn, bills the requestor, collects the money and pays the provider.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	295.68	0.00	0.00	295.68	0.00	0.00	295.68	295.68
Personal Services	4,720,728	11,751,619	0	16,472,347	11,724,844	0	16,445,572	32,917,919
Operating Expenses	365,438	7,541,257	0	7,906,695	8,439,491	0	8,804,929	16,711,624
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$5,086,166	\$19,292,876	\$0	\$24,379,042	\$20,164,335	\$0	\$25,250,501	\$49,629,543
General Fund	5,086,166	19,292,876	0	24,379,042	20,164,335	0	25,250,501	49,629,543
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$5,086,166	\$19,292,876	\$0	\$24,379,042	\$20,164,335	\$0	\$25,250,501	\$49,629,543

Program Description

The District Court Operations Program funds salaries, travel and training costs for the state's district judges. Also, with the passage of SB 176 by the 57th Legislature, the Supreme Court is responsible for the costs, oversight and management of the staff and associated operations in the state's 22 district courts, excluding the clerks of court and other elected officials, and the provision of office space. District courts are general jurisdiction trial courts having original jurisdiction in all criminal felony cases, civil matters, and cases of law.

Program Narrative

District Court Operations Major Budget Highlights	
- Total funding increases \$19.3 million in fiscal 2004 and \$20.2 million in fiscal 2005 over base year expenditures, primarily due to state assumption of district court costs - Without district court assumption, the District Court Operations budget increases approximately \$1.0 million per year or 21 percent over fiscal 2002 actual expenditures	
Major LFD Issues	
For a discussion of District Court Assumptions, please see the agency narrative	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table District Court Operations						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 5,086,166	100.0%	\$ 24,379,042	100.0%	\$ 25,250,501	100.0%
02693 Air Transportation Special Revenue	-	-	-	-	-	-
Grand Total	\$ 5,086,166	100.0%	\$ 24,379,042	100.0%	\$ 25,250,501	100.0%

This program is funded with general fund. District court fees are collected and deposited into the general fund.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				11,681,323					11,654,548
Vacancy Savings				0					0
Inflation/Deflation				1,087					1,484
Fixed Costs				273,050					273,050
Total Statewide Present Law Adjustments				\$11,955,460					\$11,929,082
DP 4001 - Pay Plan Implementation									
0.00	70,296	0	0	70,296	0.00	70,296	0	0	70,296
DP 4002 - Federal Building Rent									
0.00	106,123	0	0	106,123	0.00	108,245	0	0	108,245
DP 4003 - Annualize Operating Costs for New Judges									
0.00	44,600	0	0	44,600	0.00	44,600	0	0	44,600
DP 4004 - State District Court Costs - Adjusted Base									
0.00	7,116,397	0	0	7,116,397	0.00	8,012,112	0	0	8,012,112
Total Other Present Law Adjustments									
0.00	\$7,337,416	\$0	\$0	\$7,337,416	0.00	\$8,235,253	\$0	\$0	\$8,235,253
Grand Total All Present Law Adjustments				\$19,292,876					\$20,164,335

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4001 - Pay Plan Implementation - The District Court assumption bill directed the Judicial Branch to develop and implement a branch wide classification and compensation plan by July 1, 2003. The National Center for State Courts, following extensive review, recommended a classification and pay plan, which was approved by the Montana Supreme Court in June 2002. The plan established a grade system with a minimum and maximum pay rate for each pay grade. The pay rates are based in large part on the Executive Branch pay plan. Employees were placed on the system at their county rate of pay. Starting in July 2003, employees above the maximum rate will be frozen until the pay matrix moves enough to "catch-up" with these employees. There are 23 employees currently below the minimum rate in this program. This proposal would move these employees to the minimum pay rate for the assigned grade.

LFD COMMENT

This proposal adjusts the pay for 23.00 of the 25.00 FTE below the minimum pay level as determined under the judicial branch pay plan for an annual general fund cost of \$70,296. SB 176 guarantees former county employee salaries at their June 30, 2002 level, and protects them from reductions based on branch wide pay plan implementation, which becomes effective on July 1, 2003. But there was no provision for increasing employee pay that falls below the minimum pay range specified in the pay plan.

In addition, fiscal 2003 personal services costs are higher than anticipated due to pay increases provided to some county employees in the year prior to state assumption, implementation of the fiscal 2003 pay raise on July 1 rather than October 1 along with providing it to the new county employees, and costs of the 8.50 FTE approved by the 2001 legislature. Refer to issues under the agency discussion for more detailed information.

DP 4002 - Federal Building Rent - The branch was authorized 8.50 FTE in the 2003 biennium for the administration of state assumption of district courts. The Department of Administration located office space in the federal building for these FTE. The associated rent is \$106,123 in fiscal 2004 and \$108,245 in fiscal 2005.

**LFD
COMMENT**

The assumption was made in the fiscal note accompanying SB 176 that office space would be available on the Capitol Complex and rent would be paid at the budgeted rate for the new District Courts Administrative Office (\$4.77 per square foot, per year). The rate at the federal building is \$10.75 per square foot, per year. Consequently, this is an additional expense of district court assumption that was not anticipated by the legislature.

DP 4003 - Annualize Operating Costs for New Judges - This proposal annualizes the operating costs for the two judges taking office January 1, 2003, in Ravalli County and Cascade County. The request for \$44,600 per year includes funding for supplies, telephone, postage, and legal research for two judges and six staff.

**LFD
COMMENT**

These new judges were authorized by the 2001 legislature with staff and associated operating costs provided during the August 2002 Special Session. This proposal annualizes funding for the next biennium.

DP 4004 - State District Court Costs - Adjusted Base - The Fifty-seventh Legislature authorized SB 176 to provide for the state assumption of District Courts. As directed in SB 176, sizeable district court expenses are reported and paid in the following expenditure categories: court reporters; jury services; witness services; psychiatric examinations; indigent defense; CASA/GALs; youth court/juvenile probation; and youth in need of care. The executive projects the base costs for these items at \$7,116,397 in FY 2004 and \$8,012,112 in FY 2005. A bill will be introduced at the request of the OBPP to deal with the variable costs that exceed the projected base costs.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	11.00	0.00	0.00	11.00	0.00	0.00	11.00	11.00
Personal Services	560,972	81,897	(15,000)	627,869	84,634	(15,000)	630,606	1,258,475
Operating Expenses	94,043	(900)	0	93,143	(873)	0	93,170	186,313
Total Costs	\$655,015	\$80,997	(\$15,000)	\$721,012	\$83,761	(\$15,000)	\$723,776	\$1,444,788
State/Other Special	655,015	80,997	(15,000)	721,012	83,761	(15,000)	723,776	1,444,788
Total Funds	\$655,015	\$80,997	(\$15,000)	\$721,012	\$83,761	(\$15,000)	\$723,776	\$1,444,788

Program Description

The Water Courts Supervision Program, located in Bozeman, adjudicates claims of existing water rights in Montana and supervises the distribution of water among the four water divisions of the state, as defined in 3-7-102, MCA.

Program Narrative

Water Courts Supervision Major Budget Highlights	
○	Total funding increases about 10 percent over fiscal 2002 actual expenditures due to personal services increases in the adjusted base
○	New proposals include a \$15,000 per year reduction in personal services due to declining revenues to the renewable resource grant and loan account

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Water Courts Supervision						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
02272 Renewable Resources Grnt/Loans	\$ 655,015	100.0%	\$ 721,012	100.0%	\$ 723,776	100.0%
Grand Total	\$ 655,015	100.0%	\$ 721,012	100.0%	\$ 723,776	100.0%

This program is funded with state special revenue from the renewable resource grant and loan account. These accounts include the resource indemnity and ground water assessment (RIGWA) tax, as well as interest earnings on resource indemnity tax (RIT) trust.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					81,897					84,634
Vacancy Savings					0					0
Inflation/Deflation					(900)					(873)
Total Statewide Present Law Adjustments					\$80,997					\$83,761
Grand Total All Present Law Adjustments					\$80,997					\$83,761

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 5101 - Reduce Water Courts Personal Services										
05	0.00	0	(15,000)	0	(15,000)	0.00	0	(15,000)	0	(15,000)
Total	0.00	\$0	(\$15,000)	\$0	(\$15,000)	0.00	\$0	(\$15,000)	\$0	(\$15,000)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5101 - Reduce Water Courts Personal Services - The Water Court is currently funded from the RIT renewable resource account (02272), which has declining revenues and is used to fund programs within several agencies. The requested expenditures drove the fund balance negative. To scale back expenditures, but not disrupt normal operations, the court will reduce the personal services adjusted base by \$15,000 per year in the 2005 biennium.

LFD COMMENT

Refer to the RIT discussion in Section C-Natural Resources and Commerce under the Department of Natural Resources and Conservation for details regarding the revenue status. This is a short-term solution to the declining revenue issue as personal services are funded based on the snapshot done each biennium making the reduction one-time in nature. Therefore, if the revenue trend continues in future biennia, the problem will need to be addressed through new decision packages.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	5.50	0.00	0.00	5.50	0.00	0.00	5.50	5.50
Personal Services	257,792	73,522	0	331,314	73,422	0	331,214	662,528
Operating Expenses	37,692	3,956	0	41,648	3,956	0	41,648	83,296
Total Costs	\$295,484	\$77,478	\$0	\$372,962	\$77,378	\$0	\$372,862	\$745,824
General Fund	295,484	77,478	0	372,962	77,378	0	372,862	745,824
Total Funds	\$295,484	\$77,478	\$0	\$372,962	\$77,378	\$0	\$372,862	\$745,824

Program Description

The Clerk of Court Program performs support and operational duties for the Supreme Court, as outlined in Title 3, Chapter 2, part 4, MCA. The program keeps the court records and files, issues writs and certificates, approves bonds, files all papers and transcripts, and performs other duties as required.

Program Narrative

Clerk of Court Major Budget Highlights	
o	Total funding increases more than \$76,000 per year over fiscal 2002 actual expenditures due to statewide present law adjustments, along with a \$1,947 annual increase for records storage
o	Approximately \$53,700 of the statewide present law adjustment is a result of a new 0.50 FTE hired at the beginning of fiscal 2003 as authorized by the 2001 legislature, and an additional 0.50 FTE vacancy during the base year

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Clerk Of Court						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 295,484	100.0%	\$ 372,962	100.0%	\$ 372,862	100.0%
Grand Total	\$ 295,484	100.0%	\$ 372,962	100.0%	\$ 372,862	100.0%

This program is funded with general fund.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				73,522					73,422	
Vacancy Savings				0					0	
Inflation/Deflation				1,046					1,046	
Fixed Costs				735					735	
Total Statewide Present Law Adjustments				\$75,303					\$75,203	
DP 6001 - Records Storage and Telephone Equipment	0.00	2,175	0	0	2,175	0.00	2,175	0	0	2,175
Total Other Present Law Adjustments										
	0.00	\$2,175	\$0	\$0	\$2,175	0.00	\$2,175	\$0	\$0	\$2,175
Grand Total All Present Law Adjustments				\$77,478					\$77,378	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 6001 - Records Storage and Telephone Equipment - The executive includes \$1,947 each year for records storage, and \$228 each year for telephone charges associated with an FTE added by the 2001 legislature.

LFD COMMENT

The 2001 legislature appropriated \$3,300 per year for records storage. Actual fiscal 2002 expenditures were \$4,877. This present law adjustment would provide an additional \$1,947 per year bringing the total annual budget to approximately \$6,800 for records storage.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	3,776	11,224	0	15,000	11,224	0	15,000	30,000
Total Costs	\$3,776	\$11,224	\$0	\$15,000	\$11,224	\$0	\$15,000	\$30,000
State/Other Special	3,776	11,224	0	15,000	11,224	0	15,000	30,000
Total Funds	\$3,776	\$11,224	\$0	\$15,000	\$11,224	\$0	\$15,000	\$30,000

Agency Description

The Montana Chiropractic Legal Panel reviews potential and actual malpractice claims against chiropractors to confirm reasonable inference of malpractice. The panel provides fair disposition of well-founded claims. The panel consists of three chiropractors and three attorneys, who are required to review every potential or actual claim. The Montana Chiropractic Association appoints a director to manage the panel.

Agency Discussion

Chiropractic Legal Panel Major Budget Highlights	
o	Funding is requested at the level authorized in previous biennia

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Legal Panel Operations						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02182 Chiropractic Assessments	\$ 3,776	100.0%	\$ 15,000	100.0%	\$ 15,000	100.0%
Grand Total	\$ 3,776	100.0%	\$ 15,000	100.0%	\$ 15,000	100.0%

The Montana Chiropractic Legal Panel is funded with state special revenue funds derived from annual assessments. This amount is set annually by the director and is assessed equally to all chiropractors. Revenue collected in fiscal 2002 was \$13,650 and the fund balance is about \$43,800.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	15,000	0	15,000	15,000	0	15,000	18,776	30,000
Total Costs	\$15,000	\$0	\$15,000	\$15,000	\$0	\$15,000	\$18,776	\$30,000
State/Other Special	15,000	0	15,000	15,000	0	15,000	18,776	30,000
Total Funds	\$15,000	\$0	\$15,000	\$15,000	\$0	\$15,000	\$18,776	\$30,000

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Inflation/Deflation				2						2
Fixed Costs				247						250
Total Statewide Present Law Adjustments				\$249					\$252	
DP 1 - Operating Adjustment	0.00	0	10,975	0	10,975	0.00	0	10,972	0	10,972
Total Other Present Law Adjustments				0.00	\$0	\$10,975	\$0	\$10,975	0.00	\$0
Grand Total All Present Law Adjustments				\$11,224					\$11,224	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Operating Adjustment - All panel functions are conducted through consulting and other professional services. The panel is requesting an increase for consulting and professional services, travel, and audit fees in anticipation of increased activity. Activity depends on the number of cases filed, which cannot always be predicted.

LFD COMMENT

This proposal requests funding at the fiscal 2003 appropriated level. Fiscal 2002 expenditures of \$3,776 are about 75 percent less than previous year expenditures.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	57.00	0.00	0.00	57.00	0.00	0.00	57.00	57.00
Personal Services	2,790,161	307,217	4,713	3,102,091	300,080	4,264	3,094,505	6,196,596
Operating Expenses	1,549,903	2,092,000	294,196	3,936,099	43,589	294,695	1,888,187	5,824,286
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$4,340,064	\$2,399,217	\$298,909	\$7,038,190	\$343,669	\$298,959	\$4,982,692	\$12,020,882
General Fund	4,046,816	361,663	(66,838)	4,341,641	298,216	(66,981)	4,278,051	8,619,692
State/Other Special	247,969	35,984	302,152	586,105	43,889	302,356	594,214	1,180,319
Federal Special	45,279	2,001,570	63,595	2,110,444	1,564	63,584	110,427	2,220,871
Total Funds	\$4,340,064	\$2,399,217	\$298,909	\$7,038,190	\$343,669	\$298,959	\$4,982,692	\$12,020,882

Agency Description

The Office of the Governor exists under authority granted in Article VI of the Montana Constitution. The Governor has constitutional and statutory authority to administer the affairs of the State of Montana. The Governor appoints all military and civil officers of the state whose appointments are provided for by statute or the constitution, grants reprieves and pardons, and serves on various boards and commissions. The Governor approves or vetoes legislation, reports to the legislature on the condition of the state, and submits a biennial Executive Budget. The Governor also represents the state in relations with other governments and the public.

Executive Recommended Legislation

Economic Development Statutory Elimination - This bill eliminates the statutory appropriation from the coal severance taxes to the Office of Economic Development for business recruitment and retention. The 2001 legislature authorized a \$350,000 annual appropriation to the Governor's Office of Economic Development. The August 2002 Special Session reduced the appropriation to \$175,000 per year. This bill would eliminate the statutory appropriation for a savings of \$175,000 per year.

Economic Development Transfer to General Fund - This bill transfers the balance of \$153,000, in the state-tribal economic development commission state special revenue account, to the general fund.

Mental Health Ombudsman Fund Switch - This bill revises the Managed Care Ombudsman created in 1999 (now referred to as the Mental Health Ombudsman) to a discretionary position appointed by the Governor.

Agency Discussion

Governor's Office Major Budget Highlights	
○ Total funding increases about \$858,000 over the 2003 biennium appropriation ○ General fund increases by \$251,500, attributed to statewide present law adjustments, a new proposal for executive protection, legislative session costs, and the addition of 1.00 FTE in the Lieutenant Governor's Office ○ Additional state special revenue authority is requested for the Flathead Basin Commission annual report and projects, economic development projects, and operating costs of the Governor's airplane ○ Federal authority for anticipated state tribal economic development funds is continued ○ Budget balancing general fund reductions include eliminating 2.00 FTE, reducing the agency budget for computers, general operating reductions within the Mental Disabilities Board of Visitors, and replacing general fund for the Consensus Council and Mental Health Ombudsman with state and federal special revenue	
Major LFD Issues	
○ Economic development ○ Executive protection ○ Mental Health Ombudsman	

Funding

The following table summarizes funding for the agency, by program and source as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Executive Office Program	\$ 4,636,765	\$ 1,098,319	\$ 190,871	\$ 5,925,955	49.3%
Mansion Maintenance Program	159,025	-	-	159,025	1.3%
Air Transportation Program	357,880	82,000	-	439,880	3.7%
Office Of Bdget & Pgm Planning	2,141,202	-	-	2,141,202	17.8%
Coordinator Of Indian Affairs	274,579	-	2,000,000	2,274,579	18.9%
Lieutenant Governor'S Office	493,642	-	-	493,642	4.1%
Citizens Advocate Office	144,859	-	30,000	174,859	1.5%
Mental Disabilities Bd Visitors	411,740	-	-	411,740	3.4%
Grand Total	<u>\$ 8,619,692</u>	<u>\$ 1,180,319</u>	<u>\$ 2,220,871</u>	<u>\$ 12,020,882</u>	<u>100.0%</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	57.00	0.00	57.00	57.00	0.00	57.00	57.00	57.00
Personal Services	3,097,378	4,713	3,102,091	3,090,241	4,264	3,094,505	5,872,542	6,196,596
Operating Expenses	3,641,903	294,196	3,936,099	1,593,492	294,695	1,888,187	5,290,404	5,824,286
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$6,739,281	\$298,909	\$7,038,190	\$4,683,733	\$298,959	\$4,982,692	\$11,162,946	\$12,020,882
General Fund	4,408,479	(66,838)	4,341,641	4,345,032	(66,981)	4,278,051	8,368,227	8,619,692
State/Other Special	283,953	302,152	586,105	291,858	302,356	594,214	702,514	1,180,319
Federal Special	2,046,849	63,595	2,110,444	46,843	63,584	110,427	2,092,205	2,220,871
Total Funds	\$6,739,281	\$298,909	\$7,038,190	\$4,683,733	\$298,959	\$4,982,692	\$11,162,946	\$12,020,882

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - Executive Protection Contract										
01	0.00	130,000	0	0	130,000	0.00	130,000	0	0	130,000
DP 103 - Flathead Basin State Special Revenue										
01	0.00	0	125,000	0	125,000	0.00	0	125,000	0	125,000
DP 104 - Economic Development State Special Revenue Authority										
01	1.00	0	115,660	0	115,660	1.00	0	115,926	0	115,926
DP 110 - Reduce FBC Funding from Renewable Resources										
01	0.00	0	(13,908)	0	(13,908)	0.00	0	(13,909)	0	(13,909)
DP 301 - Airplane State Special Revenue Authority										
03	0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 402 - OBPP FTE Reduction										
04	(1.00)	(54,782)	0	0	(54,782)	(1.00)	(55,017)	0	0	(55,017)
DP 1201 - Lt. Governor's Office Staff Support										
12	1.00	26,791	0	0	26,791	1.00	26,709	0	0	26,709
DP 2001 - General Operating Reduction										
20	0.00	(15,327)	0	0	(15,327)	0.00	(15,327)	0	0	(15,327)
DP 7106 - Eliminate 1.00 FTE										
01	(1.00)	(39,525)	0	0	(39,525)	(1.00)	(39,423)	0	0	(39,423)
DP 7107 - Consensus Council Fund Switch										
01	0.00	(50,400)	50,400	0	0	0.00	(50,339)	50,339	0	0
DP 8108 - Managed Care Ombudsman Fund Switch (Requires Legislation)										
01	0.00	(63,595)	0	63,595	0	0.00	(63,584)	0	63,584	0
Total	0.00	(\$66,838)	\$302,152	\$63,595	\$298,909	0.00	(\$66,981)	\$302,356	\$63,584	\$298,959

Agency Issues

LFD Issue: Economic Development

The Martz Administration advocated economic development as a major priority of the 2001 legislative session. As a result, the legislature created an Office of Economic Development in the Governor's Office to advise the Governor on policy issues related to economic development, lead the state's business recruitment, retention, and expansion efforts, coordinate the development of a statewide economic development plan, and act as liaison with other governments, including tribal governments. The legislature provided \$2.4 million over the 2003 biennium to support the office (\$1.7 million HB 2 appropriation and \$350,000 statutory appropriation), including 7.00 new FTE. In addition, \$15.7 million of statutory appropriations to other agencies were maintained during the 2003 biennium.

Governor and August 2002 Special Session reductions reduced economic development funding for the Governor's Office by \$302,500 in fiscal 2003. The Executive Budget proposes to continue the fiscal 2003 reduction, with a further reduction for a total biennium decrease of \$779,000 from the original 2003 biennium appropriation level. The reduction eliminates the \$350,000 annual statutory appropriation and funding for a vacant FTE within the Office of Economic Development. Impacts of the reduction include reduced business marketing (promotion) efforts and reduced projects that the office will be able to undertake. In addition, a Washington, D.C. office will not be established as originally intended.

To fulfill its legislative mandate, the office created a six-stage process that included:

- o research and competitive assessment
- o developing a framework for economic development
- o collaboration and outreach to stakeholders
- o publishing an interim status report
- o developing a strategic plan that will include performance benchmarks and measurements
- o conducting an annual report on progress and operating plan for accomplishing future activities

The office has completed efforts through stage four and will complete the strategic plan by the time the 2003 legislature convenes. The strategic plan will include performance benchmarks and measurements related to the office's success, as identified and measured by the office.

The legislature may want a say in whether the office is successful, whether it is heading in the right direction, and whether it warrants funding in future biennia. Measuring the impact of an economic development program is dependent upon the ability to measure change in the state and to relate that change to specific actions that have been undertaken. Change could be measured through the number of new companies attracted or companies lost, new business formations, the increase or decrease of jobs, the increase or decrease in the average wage or income levels, or the unemployment rate. In an effort to determine the effectiveness of this office on Montana's economy, the legislature may want to consider identifying some agreed upon performance standards or measurements from the strategic plan, or in addition to those identified in the plan, for the next biennium and require the office to report back the results to the following legislature or an interim committee.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	27.50	0.00	0.00	27.50	0.00	0.00	27.50	27.50
Personal Services	1,367,624	147,331	32,704	1,547,659	143,523	32,572	1,543,719	3,091,378
Operating Expenses	1,076,617	80,025	284,523	1,441,165	31,773	285,022	1,393,412	2,834,577
Total Costs	\$2,444,241	\$227,356	\$317,227	\$2,988,824	\$175,296	\$317,594	\$2,937,131	\$5,925,955
General Fund	2,198,563	173,232	(23,520)	2,348,275	113,273	(23,346)	2,288,490	4,636,765
State/Other Special	215,398	52,555	277,152	545,105	60,460	277,356	553,214	1,098,319
Federal Special	30,280	1,569	63,595	95,444	1,563	63,584	95,427	190,871
Total Funds	\$2,444,241	\$227,356	\$317,227	\$2,988,824	\$175,296	\$317,594	\$2,937,131	\$5,925,955

Program Description

The Executive Office Program aids the Governor in overseeing and coordinating the activities of the executive branch of Montana state government. The program provides administrative, legal, and press support and centralized services for the Office of the Governor. The Executive Office Program also administers programs with special impact on the citizens and governmental concerns of Montana. Special programs include the Office of Economic Opportunity, which was created to strengthen the foundations of the state's business environment and diversify and expand existing economic endeavors to achieve long-term economic stability, the Flathead Basin Commission, and the Montana Consensus Council.

Program Narrative

Executive Office Program Major Budget Highlights	
○ Total funding increases \$544,600 in fiscal 2004 and \$493,000 in fiscal 2005 over base expenditures ○ Budget balancing reductions include decreasing economic development funding (\$214,500 annually), transferring state-tribal economic development funding to the general fund (\$153,000 annually), and replacing Consensus Council and Mental Health Ombudsman general fund with other funding (\$114,000 annually) ○ New proposals increase general fund for executive protection, and provide state and federal revenue authority for the Flathead Basin Commission, economic development, the Consensus Council, and the Mental Health Ombudsman	
Major LFD Issues	
○ Executive protection ○ Mental Health Ombudsman	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Executive Office Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 2,198,563	89.9%	\$ 2,348,275	78.6%	\$ 2,288,490	77.9%
02038 Governor'S Office Ssr	1,712	0.1%	125,000	4.2%	125,000	4.3%
02166 Economic Dev Workforce Develop	-	-	115,660	3.9%	115,926	3.9%
02272 Renewable Resources Grnt/Loans	50,863	2.1%	41,825	1.4%	48,195	1.6%
02275 Consensus Council Ssr	162,823	6.7%	262,620	8.8%	264,093	9.0%
03001 Governors Office Federal Grnts	-	-	-	-	-	-
03580 93.778 - Med Adm 50%	30,280	1.2%	96,269	3.2%	96,252	3.3%
03583 93.778 - Med Ben Fmap	-	-	(825)	0.0%	(825)	0.0%
Grand Total	\$ 2,444,241	100.0%	\$ 2,988,824	100.0%	\$ 2,937,131	100.0%

This program is funded with a combination of general fund, and state and federal special revenue. General fund pays for general administration, legislative audits, extradition and transportation of prisoners, and economic development.

State special revenue includes renewable resource grant and loan funding for the Flathead Basin Commission; governor's state special revenue used primarily to support the Flathead Basin Commission; and fees and private funds for the Consensus Council services. Federal funds consist of Medicaid reimbursements for administrative expenses of the Mental Health Ombudsman.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				206,032					202,074
Vacancy Savings				(58,701)					(58,551)
Inflation/Deflation				2,650					3,587
Fixed Costs				47,920					21,419
Total Statewide Present Law Adjustments				\$197,901					\$168,529
DP 102 - Flathead Basin Commission Biennial Report									
0.00	0	0	0	0	0.00	0	5,000	0	5,000
DP 111 - Replacement Computers									
0.00	28,104	0	1,351	29,455	0.00	(2,286)	2,702	1,351	1,767
Total Other Present Law Adjustments									
0.00	\$28,104	\$0	\$1,351	\$29,455	0.00	(\$2,286)	\$7,702	\$1,351	\$6,767
Grand Total All Present Law Adjustments				\$227,356					\$175,296

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 102 - Flathead Basin Commission Biennial Report - The Flathead Basin Commission is required by law to submit a biennial report to the legislature. This cost always appears in a non-base year of the biennium, so it must be added as a decision package in the second year of each biennium.

**LFD
COMMENT**

The funding source for this proposal is from the renewable resource grant and loan account. Based on activities funded throughout all state agencies, a revenue shortfall is anticipated in this account, so the executive has included an offsetting reduction of about \$13,900 each year through DP 110.

DP 111 - Replacement Computers - This proposal provides funding for replacement of computers on a four-year replacement cycle and consolidates purchases under a single program. The budget for fiscal 2004 includes a new server and tape backup, which will be used by the entire Governor's Office. Related decision packages in the Office of Budget and Program Planning (Program 04) and Mental Disabilities Board of Visitors (Program 20) reduce all general fund budgets for this account to zero.

**LFD
COMMENT**

If approved, the legislature may want to designate funding of \$14,178 for the new server and tape backup as a one-time-only (OTO) expenditure in fiscal 2004. The remaining funds, \$13,926 and \$1,767 in each year of the 2005 biennium plus fiscal 2002 expenditures carried forward from the base (\$11,743 per year), will allow 19 replacements in the first year and 11 in the second year of the 2005 biennium at a cost of \$1,351 per unit. There are 59 workstations throughout the Governor's Office requiring 15 replacements annually to meet the four-year replacement cycle. Therefore, an additional \$5,404 (four computers at \$1,351 each) could be designated as one-time-only to assure that base year expenditures in the next biennium reflect the intended replacement schedule. Fifteen computers were replaced in fiscal 2002, but it is unlikely that any will be accomplished in fiscal 2003 due to Governor and August 2002 Special Session reductions.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 101 - Executive Protection Contract										
01	0.00	130,000	0	0	130,000	0.00	130,000	0	0	130,000
DP 103 - Flathead Basin State Special Revenue										
01	0.00	0	125,000	0	125,000	0.00	0	125,000	0	125,000
DP 104 - Economic Development State Special Revenue Authority										
01	1.00	0	115,660	0	115,660	1.00	0	115,926	0	115,926
DP 110 - Reduce FBC Funding from Renewable Resources										
01	0.00	0	(13,908)	0	(13,908)	0.00	0	(13,909)	0	(13,909)
DP 7106 - Eliminate 1.00 FTE										
01	(1.00)	(39,525)	0	0	(39,525)	(1.00)	(39,423)	0	0	(39,423)
DP 7107 - Consensus Council Fund Switch										
01	0.00	(50,400)	50,400	0	0	0.00	(50,339)	50,339	0	0
DP 8108 - Managed Care Ombudsman Fund Switch (Requires Legislation)										
01	0.00	(63,595)	0	63,595	0	0.00	(63,584)	0	63,584	0
Total	0.00	(\$23,520)	\$277,152	\$63,595	\$317,227	0.00	(\$23,346)	\$277,356	\$63,584	\$317,594

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 101 - Executive Protection Contract - It is requested that the contract with the Department of Justice to provide executive protection for the Governor be continued.

**LFD
ISSUE**

This proposal requests continued funding for a contract initiated during the 2003 biennium that provides uniformed guards for the Governor, and was authorized through an operating plan change that transferred funds from personal services to contracted services. Funding was authorized at \$115,000 and \$140,000 in each year of the 2003 biennium and generated by underfilling positions in the Governor's Office of Economic Opportunity.

Statute (44-1-104, MCA) states: "The department of justice shall furnish the Governor with automobile transportation upon his request, provided that such transportation shall be limited to travel and transportation of the Governor while on official business of the state." The contract specifies that the Department of Justice will provide two uniformed officers for this activity and bill the Governor's Office for services and expenses. This arrangement is similar to the state of Idaho, who funds executive protection through the state highway patrol at a cost of \$265,000 per year with 2.50 FTE. South Dakota and North Dakota provide executive protection through their highway patrol only during specific events. A decision package is included in the Executive Budget under the Department of Justice that requests funding for the 2.00 FTE and their expenses. The FTE requested are for a grade 16, step 13 and a grade 17, step 13. The contract also specifies that two vehicles will be acquired through state surplus, which was accomplished during the current biennium. In light of the current budget deficit, the legislature may want to consider whether this new proposal is a priority of the legislature.

Options:

- Authorize funding for the request as submitted.
- Authorize funding for 1.00 FTE to allow the provision of protection during special events at a total annual cost of \$65,000.
- Fund the FTE(s) at entry level for a total annual cost of \$110,000.
- Do not fund the request.

DP 103 - Flathead Basin State Special Revenue - During the 2003 biennium, the Flathead Basin Commission received various small contracts and grants with other agencies, primarily Department of Environmental Quality and Department of Natural Resources and Conservation to conduct work related to water quality in the Flathead Basin. Spending authority for these grants and contracts was obtained through administrative appropriations. In order to minimize paperwork and simplify management of the grants and contracts, the Governor's Office requests state special revenue spending authority in the budget at the same level as the current biennium. Should the grants or contracts not continue, the spending authority could not be used.

DP 104 - Economic Development State Special Revenue Authority - During the 2005 biennium, the Office of Economic Opportunity has received contracts from other state agencies. In order to spend these funds, the Governor's Office has obtained administrative appropriations (AA) and obtained a modified FTE through the AAs. This request would establish the same level of spending authority in the 2005 biennium. If the funding does not materialize, the appropriation could not be used.

**LFD
COMMENT**

This proposal is funded through a transfer from the Department of Labor and Industry (DLI), Workforce Development Program with funds received under the Workforce Development Act of 1998. Funding of \$51,357 was received in fiscal 2002 and \$113,447 is included for fiscal 2003 in a memorandum of agreement between DLI and the Governor's Office. The money supports 1.00 FTE to oversee workforce development programs of the Governor's Office of Economic Opportunity. Activities include providing administrative support to the State Workforce Investment Board and handling workforce related issues.

DP 110 - Reduce FBC Funding from Renewable Resources - The Flathead Basin Commission (FBC) is funded with \$117,837 from the renewable resources grant and loan state special revenue fund (02272). \$111,486 is in the adjusted base for FBC from renewable resources, with additional amounts of \$6,351 requested in two decision packages. Revenues to renewable resources from the resource indemnity trust (RIT) fund are insufficient to fund all of the currently funded programs in various agencies. This reduction to meet a biennial amount of \$90,020 for FBC from renewable resources is proposed to give the fund a positive ending fund balance.

**LFD
COMMENT**

This will reduce general operating expenses of the Flathead Basin Commission by about \$13,900 each year which they may be able to replace through charging additional administrative costs through their contracts. Refer to the RIT discussion in "Section C-Natural Resources and Commerce under the Department of Natural Resources and Conservation" for details regarding the revenue status.

DP 7106 - Eliminate 1.00 FTE - The executive recommends eliminating 1.00 FTE in the Office of Economic Opportunity.

**LFD
COMMENT**

This proposal eliminates a vacant position for a general fund savings of almost \$79,000 over the biennium. SB 445 authorized by the 2001 legislature created the Governor's Office of Economic Development, in addition to reorganizing the Department of Commerce. The legislation allowed for a Chief Business Development Officer plus 6.00 FTE to improve, enhance, and diversify Montana's economic and business climate through business creation, expansion, and retention efforts; and coordination with local development organizations. Funding provided through HB 2 was \$850,000 per year.

The position to be eliminated was never filled during the 2003 biennium. It was left vacant to help fund the executive protection agreement with the Department of Justice.

DP 7107 - Consensus Council Fund Switch - This decision package removes the general fund support from the Consensus Council and replaces it with a like amount of state special revenue authority. The request will require the program to become self-supporting. The reduction in general fund is \$50,400 in fiscal 2004 and \$50,399 in fiscal 2005.

**LFD
COMMENT**

This proposal meets the original intent of the legislature at the time the council was established. The Montana Consensus Council (MCC) is a non-profit organization that is attached to the Office of the Governor for administrative purposes. It was created by executive order in 1994 at the urging of a group of farmers, ranchers, environmentalists, legislators, and state and federal officials to provide an ongoing forum to help citizens and officials resolve natural resource disputes. The original objective of the council was to evolve into a public-private, nonprofit corporation and to be self-supporting after an initial two-year pilot project. The office was to charge fees for its services and attempt to raise non-state funds to support itself after the initial two-year period. Revenues generated through fees and other non-state funds have ranged from about \$73,000 in fiscal 1994 to \$157,000 in fiscal 2002. Services provided by the council include public participation, education and training, research and communication, and regional outreach regarding natural resource and other policy.

General fund support for the counsel has been about \$50,000 per year. In addition, the 2001 legislature approved \$150,000 general fund to be used as matching funds for grants as a biennial, one-time-only appropriation (\$75,000 each year). In fiscal 2003, the one-time-only appropriation was eliminated through the Governor and special session reductions. Removing general fund from the budget will require the counsel to rely on fees, contracts, and grants to fund its operations.

DP 8108 – Mental Health Ombudsman Fund Switch (Requires Legislation) - This proposal would revise the Mental Health Ombudsman to be a discretionary appointment by the Governor. It is recommended that general fund be eliminated, but the federal authority be retained, for a general fund savings of \$127,179 for the biennium. This decision package is contingent upon passage and approval of a bill.

LFD
ISSUE

The executive has indicated that the chance of obtaining additional federal funds to compensate for the loss of general fund is not very good. However, it appears that some activities of the Mental Disabilities Board of Visitors could be eligible for federal Medicaid reimbursement. This would include activities related to community services that have Medicaid eligible clients. If such clients can be easily identified a portion of the costs, equivalent to the percentage of Medicaid eligible to total clients, may be reimbursable through Medicaid. A cost allocation plan would be required, which will make the administrative procedures more complex. General fund savings from any federal Medicaid reimbursement for the Mental Disabilities Board of Visitors could fund the Mental Health Ombudsman. Language would need to be added in HB 2 to do two things:

- Require the Mental Disabilities Board of Visitors to seek federal reimbursement and reduce general fund by the amount of federal funds reviewed
- Provide a language appropriation to the Mental Health Ombudsman for general fund freed up in the Mental Disabilities Board of Visitors program

Discussions with the executive indicate that it will be difficult to continue the Mental Health Ombudsman if funding is not secured to replace general fund.

The Fifty-sixth Legislature created the Mental Health Ombudsman in 1999 at the same time it terminated the Mental Health contract for the public mental health system. The purpose is to represent the interests of individuals with regard to the need for public mental health services, including individuals in transition from public to private services. The office receives over 400 contacts annually.

Language Recommendations

The executive proposes to continue the following language:

"The legislature recognizes that the cost for extradition and transportation of prisoners is dependent upon factors beyond the control of the agency and may exceed the appropriation provided. In that event, the agency will need to request a supplemental appropriation from the 2005 legislature to provide required extradition and transportation of prisoners."

LFD
COMMENT

This proposed language continues language added to HB 2 by the 2001 and previous legislatures. However, the language does not in any way obligate the 2005 legislature to approve supplemental funding should expenditures exceed the appropriation.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1.50	0.00	0.00	1.50	0.00	0.00	1.50	1.50
Personal Services	48,631	88	0	48,719	(15)	0	48,616	97,335
Operating Expenses	31,014	(212)	0	30,802	(126)	0	30,888	61,690
Total Costs	\$79,645	(\$124)	\$0	\$79,521	(\$141)	\$0	\$79,504	\$159,025
General Fund	79,645	(124)	0	79,521	(141)	0	79,504	159,025
Total Funds	\$79,645	(\$124)	\$0	\$79,521	(\$141)	\$0	\$79,504	\$159,025

Program Description

The Mansion Maintenance Program maintains the Governor's official residence.

Program Narrative

Mansion Maintenance Major Budget Highlights	
o	Funding is maintained at approximately the same level as base year expenditures

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Mansion Maintenance Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 79,645	100.0%	\$ 79,521	100.0%	\$ 79,504	100.0%
Grand Total	\$ 79,645	100.0%	\$ 79,521	100.0%	\$ 79,504	100.0%

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				2,118					2,011
Vacancy Savings				(2,030)					(2,026)
Fixed Costs				(212)					(126)
Total Statewide Present Law Adjustments				(\$124)					(\$141)
Grand Total All Present Law Adjustments				(\$124)					(\$141)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1.00	0.00	0.00	1.00	0.00	0.00	1.00	1.00
Personal Services	54,023	(1,926)	0	52,097	(1,928)	0	52,095	104,192
Operating Expenses	133,847	7,936	25,000	166,783	10,058	25,000	168,905	335,688
Total Costs	\$187,870	\$6,010	\$25,000	\$218,880	\$8,130	\$25,000	\$221,000	\$439,880
General Fund	171,870	6,010	0	177,880	8,130	0	180,000	357,880
State/Other Special	16,000	0	25,000	41,000	0	25,000	41,000	82,000
Total Funds	\$187,870	\$6,010	\$25,000	\$218,880	\$8,130	\$25,000	\$221,000	\$439,880

Program Description

The Air Transportation Program provides the Governor with air transportation.

Program Narrative

Air Transportation Program Major Budget Highlights	
○	General fund increases due to statewide present law adjustments
○	Authority to expend state special revenue from airplane use charges is requested

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Air Transportation Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 171,870	91.5%	\$ 177,880	81.3%	\$ 180,000	81.4%
02038 Governor'S Office Ssr	16,000	8.5%	-	-	-	-
02693 Air Transportation Special Revenue	-	-	41,000	18.7%	41,000	18.6%
Grand Total	\$ 187,870	100.0%	\$ 218,880	100.0%	\$ 221,000	100.0%

The program is funded with general fund and state special revenue from rental charges to other state agencies for use of the Governor's airplane.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					245					243
Vacancy Savings					(2,171)					(2,171)
Inflation/Deflation					4,589					6,649
Fixed Costs					3,347					3,409
Total Statewide Present Law Adjustments					\$6,010					\$8,130
Grand Total All Present Law Adjustments					\$6,010					\$8,130

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 301 - Airplane State Special Revenue Authority										
03	0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
Total	0.00	\$0	\$25,000	\$0	\$25,000	0.00	\$0	\$25,000	\$0	\$25,000

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 301 - Airplane State Special Revenue Authority - The Air Transportation program provides air travel for the Governor. The aircraft is available to other state agencies and the Governor's Office bills these other agencies on an hourly basis for their use of the airplane. The purpose of this request is to establish adequate appropriation authority to spend the funds recovered from other state agencies in order to allow for maximum, efficient use of the aircraft.

LFD COMMENT

Agencies are charged \$375 per hour for use of the state aircraft. The fee includes the direct physical cost for flying the aircraft, gasoline expense, and an industry standard amount for engine overhaul reserve and major maintenance. A portion of the fees pay for the direct cost of the charters, while a majority of the revenue is deposited into a state special revenue account as a reserve for engine overhaul when needed.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	17.00	0.00	(1.00)	16.00	0.00	(1.00)	16.00	16.00
Personal Services	848,543	135,211	(54,782)	928,972	132,636	(55,017)	926,162	1,855,134
Operating Expenses	145,441	(236)	0	145,205	(4,578)	0	140,863	286,068
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$993,984	\$134,975	(\$54,782)	\$1,074,177	\$128,058	(\$55,017)	\$1,067,025	\$2,141,202
General Fund	993,984	134,975	(54,782)	1,074,177	128,058	(55,017)	1,067,025	2,141,202
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$993,984	\$134,975	(\$54,782)	\$1,074,177	\$128,058	(\$55,017)	\$1,067,025	\$2,141,202

Program Description

The Office of Budget and Program Planning (OBPP) assists the Governor in preparing the Governor's Executive Budget and administering the state government budget. In addition, the OBPP prepares and monitors revenue estimates and collections, prepares and publishes fiscal notes on proposed legislation and initiatives, and acts as approving authority for operational plan changes, program transfers, and budget amendments in the executive branch, in accordance with Title 17, Chapter 7, MCA. The OBPP acts as the lead executive branch agency for compliance with the federal Single Audit Act.

Program Narrative

Office of Budget and Program Planning Major Budget Highlights

- General fund increases are attributed to statewide present law adjustments, legislative session costs, and pay raises associated with an alternative pay plan
- Elimination of 1.00 FTE and agency proposed vacancy savings offset costs of the alternative pay plan
- Base year expenditures for computer replacements are removed from the program and included under the Executive Office Program

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Office Of Bdget & Pgm Planning						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 993,984	100.0%	\$ 1,074,177	100.0%	\$ 1,067,025	100.0%
02038 Governor'S Office Ssr	-	-	-	-	-	-
03001 Governors Office Federal Grnts	-	-	-	-	-	-
Grand Total	\$ 993,984	100.0%	\$ 1,074,177	100.0%	\$ 1,067,025	100.0%

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					176,202					173,520
Vacancy Savings					(40,991)					(40,884)
Inflation/Deflation					2,254					2,279
Fixed Costs					15,777					1,410
Total Statewide Present Law Adjustments					\$153,242					\$136,325
DP 111 - Replacement Computers	0.00	(18,267)	0	0	(18,267)	0.00	(18,267)	0	0	(18,267)
DP 401 - OBPP Session Costs	0.00	0	0	0	0	0.00	10,000	0	0	10,000
Total Other Present Law Adjustments	0.00	(\$18,267)	\$0	\$0	(\$18,267)	0.00	(\$8,267)	\$0	\$0	(\$8,267)
Grand Total All Present Law Adjustments					\$134,975					\$128,058

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 111 - Replacement Computers - This proposal removes base year expenditures for computers within the program. The executive proposes consolidating computer replacement funding for the entire agency under the Executive Office Program.

DP 401 - OBPP Session Costs - Costs for printing the Executive Budget always appear in the second year of the biennium and thus are not included in the base budget. The number of copies to be printed has been reduced and the budget volumes are available on the web site. Printing costs are added each budget cycle to the non-base year.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 402 - OBPP FTE Reduction										
04	(1.00)	(54,782)	0	0	(54,782)	(1.00)	(55,017)	0	0	(55,017)
Total	(1.00)	(\$54,782)	\$0	\$0	(\$54,782)	(1.00)	(\$55,017)	\$0	\$0	(\$55,017)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 402 - OBPP FTE Reduction - The Executive recommends a reduction of 1.00 FTE, executive budget analyst, to fund the OBPP alternative pay plan adjustment. In addition, the program will be required to absorb additional vacancy savings.

LFD COMMENT	Pay plan increases for OBPP staff were implemented during fiscal 2002 through the broadband pay plan developed by the Personnel Division of the Department of Administration under the authority of 2-18-303, MCA. Approximately \$50,000 of growth in the OBPP personal services budget is due to this action. Under the broadband pay system, funding was not provided by the legislature for associated pay increases, so available appropriation authority was used to fund these increases during the 2003 biennium and negative adjustments were anticipated by OBPP to fund the increases for the 2005 biennium. In the case of OBPP, a position was left vacant to fund the new pay plan. This proposal, which eliminates the vacant position, combined with an agency proposed vacancy savings of \$77,300 over the biennium, is OBPP's negative proposal to fund the new pay plan.
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Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2.00	0.00	0.00	2.00	0.00	0.00	2.00	2.00
Personal Services	74,743	22,124	0	96,867	22,570	0	97,313	194,180
Operating Expenses	38,915	2,001,096	0	2,040,011	1,473	0	40,388	2,080,399
Total Costs	\$113,658	\$2,023,220	\$0	\$2,136,878	\$24,043	\$0	\$137,701	\$2,274,579
General Fund	97,087	39,791	0	136,878	40,614	0	137,701	274,579
State/Other Special	16,571	(16,571)	0	0	(16,571)	0	0	0
Federal Special	0	2,000,000	0	2,000,000	0	0	0	2,000,000
Total Funds	\$113,658	\$2,023,220	\$0	\$2,136,878	\$24,043	\$0	\$137,701	\$2,274,579

Program Description

The Coordinator of Indian Affairs Program serves as the Governor's liaison with state Indian tribes, provides information and policy support on issues confronting the Indians of Montana, and advises and makes recommendations on these issues to the legislative and executive branches. The coordinator also serves the Montana congressional delegation as an advisor and intermediary in the field of Indian affairs and acts as spokesperson for representative Native American organizations and groups, both public and private, whenever that support is requested. The program is mandated by 2-15-217 and 90-11-101, MCA.

Program Narrative

Coordinator of Indian Affairs
Major Budget Highlights
- General fund increases due to statewide present law adjustments - Federal special revenue authority of \$2.0 million is continued in fiscal 2004 only for State-Tribal economic Development Commission - Budget balancing efforts include a \$153,000 fund transfer from the state tribal economic development account to the general fund

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table						
Coordinator Of Indian Affairs						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 97,087	85.4%	\$ 136,878	6.4%	\$ 137,701	100.0%
02939 State Tribal Ed Ss	16,571	14.6%	-	-	-	-
03949 State Tribal Ed Fs	-	-	2,000,000	93.6%	-	-
Grand Total	\$ 113,658	100.0%	\$ 2,136,878	100.0%	\$ 137,701	100.0%

The program is funded with a combination of general fund, state special revenue authority from the state-tribal economic development account, and federal authority for anticipated federal grants.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				26,160					26,624
Vacancy Savings				(4,036)					(4,054)
Inflation/Deflation				(121)					1
Fixed Costs				1,217					1,472
Total Statewide Present Law Adjustments				\$23,220					\$24,043
DP 501 - State-Tribal Economic Development Commission	0.00	0	0	2,000,000	2,000,000	0.00	0	0	0
Total Other Present Law Adjustments				0.00	\$0	\$0	\$0	\$0	\$0
Grand Total All Present Law Adjustments				\$2,023,220					\$24,043

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT

This program experienced significant vacancy savings in fiscal 2002 due to the vacancy of the director. The position is still vacant.

DP 501 - State-Tribal Economic Development Commission - HB 21 adopted and approved through the 2001 legislative session extended the duration of the State-Tribal Economic Development Commission and amended 90-1-135, MCA, to state, "Money in the accounts that is not expended by June 30, 2005, must remain in the accounts for the commission's use." This request estimates the amounts that will be remaining in the accounts and will be available for use until June 30, 2005.

LFD COMMENT

This proposal provides authority to spend federal funds that might be received for state-tribal economic development activities in fiscal 2004.

The commission was authorized under HB 670, the Native American Economic Development Act of 1999, by the 1999 legislature to assess and promote economic development on Indian reservations. The legislation provided establishment of state special and federal special revenue accounts for receipt of state, private and federal funds. In addition to \$200,000 general fund, \$2,000,000 of federal funding authority was provided through HB 670 for anticipated federal funds. To date, there has been no activity in the federal account, as federal funds have not been secured. One federal grant has been pursued by the commission but was not funded.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	3.00	0.00	1.00	4.00	0.00	1.00	4.00	4.00
Personal Services	186,067	(10,215)	26,791	202,643	(10,716)	26,709	202,060	404,703
Operating Expenses	39,395	4,454	0	43,849	5,695	0	45,090	88,939
Total Costs	\$225,462	(\$5,761)	\$26,791	\$246,492	(\$5,021)	\$26,709	\$247,150	\$493,642
General Fund	225,462	(5,761)	26,791	246,492	(5,021)	26,709	247,150	493,642
Total Funds	\$225,462	(\$5,761)	\$26,791	\$246,492	(\$5,021)	\$26,709	\$247,150	\$493,642

Program Description

The Office of the Lieutenant Governor is responsible for carrying out duties prescribed by statute established by Article VI, Section 4 of the Montana Constitution, as well as those delegated by the Governor. Statutory authority is Title 2, Chapter 15, part 3, MCA.

Program Narrative

Lieutenant Governor Program Major Budget Highlights
- Statewide present law adjustments reduce general fund each year of the biennium - General fund increased based on an additional FTE

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Lieutenant Governor'S Office						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 225,462	100.0%	\$ 246,492	100.0%	\$ 247,150	100.0%
Grand Total	\$ 225,462	100.0%	\$ 246,492	100.0%	\$ 247,150	100.0%

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				(6,304)					(6,815)
Vacancy Savings				(3,911)					(3,901)
Inflation/Deflation				322					792
Fixed Costs				4,132					4,903
Total Statewide Present Law Adjustments				(\$5,761)					(\$5,021)
Grand Total All Present Law Adjustments				(\$5,761)					(\$5,021)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals -----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 1201 - Lt. Governor's Office Staff Support										
12	1.00	26,791	0	0	26,791	1.00	26,709	0	0	26,709
Total	1.00	\$26,791	\$0	\$0	\$26,791	1.00	\$26,709	\$0	\$0	\$26,709

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1201 - Lt. Governor's Office Staff Support - The office currently has 2.00 FTE support staff. An additional 1.00 FTE is requested to provide assistance to the Lt. Governor and to the policy advisors in the Governor's Office. There is currently a 1.00 modified FTE in this position, funded within the program's personal services appropriation.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1.50	0.00	0.00	1.50	0.00	0.00	1.50	1.50
Personal Services	73,111	1,747	0	74,858	1,562	0	74,673	149,531
Operating Expenses	12,942	(321)	0	12,621	(235)	0	12,707	25,328
Total Costs	\$86,053	\$1,426	\$0	\$87,479	\$1,327	\$0	\$87,380	\$174,859
General Fund	71,054	1,425	0	72,479	1,326	0	72,380	144,859
Federal Special	14,999	1	0	15,000	1	0	15,000	30,000
Total Funds	\$86,053	\$1,426	\$0	\$87,479	\$1,327	\$0	\$87,380	\$174,859

Program Description
The Citizens' Advocate Office exists to provide access to state government for Montana citizens. The office provides information to citizens and functions as a referral service for public comments, suggestions, and requests for information. The office provides a toll-free number to the public.

Program Narrative

Citizens Advocate Office Major Budget Highlights
○ Funding increases slightly due to statewide present law adjustments

Funding
The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Citizens Advocate Office							
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005	
01100 General Fund	\$ 71,054	82.6%	\$ 72,479	82.9%	\$ 72,380	82.8%	
03001 Governors Office Federal Grnts	14,999	17.4%	15,000	17.1%	15,000	17.2%	
Grand Total	\$ 86,053	100.0%	\$ 87,479	100.0%	\$ 87,380	100.0%	

The office is funded by general fund and by federal special revenues from reimbursement for services the office provides to the Department of Public Health and Human Services (DPHHS) such as answering toll free phone calls for DPHHS regarding food stamps and Medicaid issues.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				4,866					4,674	
Vacancy Savings				(3,119)					(3,112)	
Inflation/Deflation				(248)					(248)	
Fixed Costs				(73)					13	
Total Statewide Present Law Adjustments				\$1,426						\$1,327
Grand Total All Present Law Adjustments				\$1,426						\$1,327

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	3.50	0.00	0.00	3.50	0.00	0.00	3.50	3.50
Personal Services	137,419	12,857	0	150,276	12,448	0	149,867	300,143
Operating Expenses	71,732	(742)	(15,327)	55,663	(471)	(15,327)	55,934	111,597
Total Costs	\$209,151	\$12,115	(\$15,327)	\$205,939	\$11,977	(\$15,327)	\$205,801	\$411,740
General Fund	209,151	12,115	(15,327)	205,939	11,977	(15,327)	205,801	411,740
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	\$209,151	\$12,115	(\$15,327)	\$205,939	\$11,977	(\$15,327)	\$205,801	\$411,740

Program Description

The Mental Disabilities Board of Visitors reviews patient care in community mental health centers and facilities for the developmentally disabled, and provides legal services for in-patients. The five-member board is appointed by the Governor and employs staff and contractors who represent patients and review facilities. The board is mandated by 2-15-211, MCA, with duties described in 53-20-104, MCA. The Mental Disabilities Board of Visitors Program was created by the Developmental Disabilities Act of 1975 and the Mental Commitment and Treatment Act of 1975; the board exists by state mandate.

Program Narrative

Mental Disabilities Board of Visitors	
Major Budget Highlights	
○ Funding is approximately \$3,200 per year less than fiscal 2002 expenditures ○ Statewide present law adjustments add approximately \$12,000 per year ○ Budget balancing actions reduce consultant and professional services, supplies, computer hardware, and in-state personal travel budgets for a \$15,300 annual savings	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Mental Disabilities Bd Visitors						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 209,151	100.0%	\$ 205,939	100.0%	\$ 205,801	100.0%
02038 Governor'S Office Ssr	-	-	-	-	-	-
Grand Total	<u>\$ 209,151</u>	<u>100.0%</u>	<u>\$ 205,939</u>	<u>100.0%</u>	<u>\$ 205,801</u>	<u>100.0%</u>

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					19,118					18,693
Vacancy Savings					(6,261)					(6,245)
Inflation/Deflation					148					154
Fixed Costs					383					648
Total Statewide Present Law Adjustments					\$13,388					\$13,250
DP 111 - Computer Replacement	0.00	(1,273)	0	0	(1,273)	0.00	(1,273)	0	0	(1,273)
Total Other Present Law Adjustments	0.00	(\$1,273)	\$0	\$0	(\$1,273)	0.00	(\$1,273)	\$0	\$0	(\$1,273)
Grand Total All Present Law Adjustments					\$12,115					\$11,977

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 111 - Computer Replacement - This proposal decreases base year expenditures for computers within the program. This proposal combined with computer hardware reductions under DP 2001 reduces funding for computers to zero. The executive proposes consolidating computer replacement funding for the entire agency under the Executive Office Program.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 2001 - General Operating Reduction										
20	0.00	(15,327)	0	0	(15,327)	0.00	(15,327)	0	0	(15,327)
Total	0.00	(\$15,327)	\$0	\$0	(\$15,327)	0.00	(\$15,327)	\$0	\$0	(\$15,327)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 2001 - General Operating Reduction - This proposal reduces operating expenditures for the program to meet target reductions from OBPP.

LFD Comment

This proposal decreases the program's operating budget by \$15,327 per year. However, \$4,520 is reduced to zero out the computer hardware budget as all agency computers will be replaced under the Executive Office Program. Reductions include the following:

- Consultant and professional services budget (\$5,161 per year). Actual fiscal 2002 expenditures were approximately \$10,000 more than previous years due to a \$10,000 annual appropriation approved by the 2001 legislature to oversee the care of patients in Montana hospitals and clinics.
- Office supplies and minor equipment (\$2,000 per year).
- Computer hardware (\$4,520 per year). Three computers were replaced under this program in fiscal 2002. The agency's computer budget is being consolidated under the Executive Office Program.
- In-state personal car mileage (\$3,646 per year).

Agency Description

The Office of the Secretary of State conducts its daily operations through a single program: the Business and Government Services Program. The agency receives its entire funding from one enterprise fund and one internal service fund. The internal service fund is intended to support the operations of the Records Management Bureau and the enterprise fund supports the remaining operations of the office.

Proprietary Rates

Records Management (Fund 06556)

Proprietary Program Description

The Records Management Bureau is responsible for storing, accessing, microfilming, scanning, preserving, and disposing of public documents generated by state and local governments.

Proprietary Revenues and Expenses

In fiscal 2002, the Records Management Bureau had revenues of \$341,000 from records storage and imaging fees paid by state agencies. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (13.1 percent), \$44,800
- o State special revenue (9.5 percent), \$32,600
- o Federal special revenue (58.3 percent), \$198,800
- o Proprietary funds (17.5 percent), \$59,600
- o All other funds (1.6 percent), \$5,300

In fiscal 2002, revenues funded personal services for 10.00 FTE and operating costs. Personal services of \$238,213 were 57.3 percent of expenses, with operating costs making up the remaining \$177,728 or 42.7 percent of bureau expenses.

The table below shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows operating expenses have been more than operating revenues since fiscal 2001 resulting in operating losses that have reduced fund balance to a negative nearly \$100,000. The fund maintains solvency with an advance of \$190,000 from the Secretary of State business services enterprise fund.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name		
06556	Records Management	32010	Secretary of State	Business & Government Services		

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
State Services	320629	336066	341007	407500	455000	485000
Miscellaneous Receipts	42416	37010	32327	42500	37500	40000
Administrative Fees	75600	98070	0			
Documents Sold	26,075	42,670	-	-	-	-
Net Fee Revenue	499,134	494,290	357,759	450,000	492,500	525,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	26,918	20,303	14,966	-	-	-
Total Operating Revenues	526,052	514,593	372,725	450,000	492,500	525,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	526,052	514,593	372,725	450,000	492,500	525,000
Operating Expenses:						
Personal Services	380,128	292,768	238,213	196,776	294,019	265,828
Other Operating Expenses	285,325	231,460	172,900	187,207	239,508	176,061
Miscellaneous, operating	2,274	3,844	4,828	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	667,727	528,072	415,941	383,983	533,527	441,889
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	667,727	528,072	415,941	383,983	533,527	441,889
Operating Income (Loss)	(141,675)	(13,479)	(43,216)	66,017	(41,027)	83,111
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(141,675)	(13,479)	(43,216)	66,017	(41,027)	83,111
Contributed Capital	6,129	6,129	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	92,595	(49,080)	(56,430)	(99,646)	(33,629)	(74,656)
Net Income (Loss)	(135,546)	(7,350)	(43,216)	66,017	(41,027)	83,111
Retained Earnings/Fund Balances - June 30	(42,951)	(56,430)	(99,646)	(33,629)	(74,656)	8,455
60 days of expenses						
Total Operating Expenses divided by 6)	111,288	88,012	69,324	63,997	88,921	73,648

Requested Rates for Internal Service Funds:

Various rates, that allow for continued support of the office, are requested and are currently published in ARMS or established by the Secretary of State's Office.

Proprietary Rate Explanation

Figure 1 shows the historical and requested fees for the 2005 biennium for the Records Management Bureau. The fees have not changed from those charged during the 2003 biennium.

Figure 1						
Secretary of State Proposed Internal Service Fees and Charges						
		Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
1. Administrative Rules of Montana Fees						
a. Administrative Rules of Montana	per set	\$350.00	\$350.00	\$350.00	\$350.00	\$350.00
b. Quarterly updates of ARM	per year	250.00	250.00	250.00	250.00	250.00
c. Extra titles	per title, multi-part \$125.00	50.00	50.00	50.00	50.00	50.00
d. Quarterly updates of extra titles	per year per title	50.00	50.00	50.00	50.00	50.00
e. Montana Administrative Register	per subscription	300.00	300.00	300.00	300.00	300.00
f. Agency filing fee for pages of register publication	per page	35.00	40.00	40.00	40.00	40.00
g. Binders	per binder		5.00	5.00	5.00	5.00
h. Lapsed subscription fee ARM	per subscription		50.00	50.00	50.00	50.00
i. Lapsed subscription fee extra title	per title		10.00	10.00	10.00	10.00
j. Fax fee - 10 pages or less	first 10 pages		3.00	3.00	3.00	3.00
k. Fax fee - additional pages over 10 pages	per page		0.25	0.25	0.50	0.50
2. Records Management Fees (based on 2-6-103, MCA)						
a. 16MM Microfilm						
Less than 250,000		30.00	38.58	38.58	38.58	38.58
Non-typical extreme weight & size		36.75	38.58	38.58	38.58	38.58
8" x 11"; 8" x 14" paperwork		25.00	30.00	30.00	30.00	30.00
8" x 11"; 8" x 14" computer printout		22.05	30.00	30.00	30.00	30.00
Extreme size & weight variance		27.50	31.50	31.50	31.50	31.50
Cards - fixed weight & color		15.00	15.75	15.75	15.75	15.75
Cards - mixed weight & color		25.00	26.25	26.25	26.25	26.25
b. 35MM Microfilm						
L (per 12" x 12") aerial photos		65.00	68.25	68.25	68.25	68.25
16" x 20" bound books		60.00	63.00	63.00	63.00	63.00
24" x 34" newspapers		110.00	115.50	115.50	115.50	115.50
24" x 34" bound newspapers		130.00	136.50	136.50	136.50	136.50
48" x 48" blueprints/maps		275.00	288.75	288.75	288.75	288.75
c. 105MM Microfilm						
8" x 11" paperwork		65.00	68.25	68.25	68.25	68.25
8" x 11"; 8" x 14" computer printout		73.50	77.17	77.17	77.17	77.17
Cards (per 1000)		73.50	77.17	77.17	77.17	77.17
Minimum filing charge		37.50	37.50	37.50	37.50	37.50
d. Film Processing						
16mm, 100 foot roll		3.45	3.62	3.62	3.62	3.62
16mm, 215 foot roll		6.76	7.10	7.10	7.10	7.10
35mm, 100 foot roll		6.05	6.35	6.35	6.35	6.35
16mm, 3M cartridges		4.50	4.73	4.73	4.73	4.73
e. Film Inspecting						
100 foot roll inspection	per roll	3.50	3.65	3.65	3.65	3.65
215 foot roll inspection	per roll	4.98	5.23	5.23	5.23	5.23
Film splicing		0.75	0.79	0.79	0.79	0.79
3M cartridge loading		2.25	2.25	2.25	2.25	2.25
f. Duplication						
16mm, 100 foot roll	per roll	6.48	6.81	6.81	6.81	6.81
16mm, 215 foot roll	per roll	12.41	13.03	13.03	13.03	13.03
35mm, 100 foot roll	per roll	8.77	9.21	9.21	9.21	9.21
105mm, microfiche or jackets		0.15	0.16	0.16	0.16	0.16
Reader/printer copies		0.50	0.50	0.50	0.50	0.50
Photocopies/own labor		0.10	0.10	0.10	0.10	0.10
Photocopies/our labor		0.50	0.50	0.50	0.50	0.50
16mm, 100 foot roll	per roll	9.45	9.92	9.92	9.92	9.92
35mm, 100 foot roll	per roll	13.85	14.54	14.54	14.54	14.54
g. Jacket Loading						
16mm, 5 channel jacket		0.30	0.3150	0.3150	0.3150	0.3150
Agency's own jacket		0.275	0.2887	0.2887	0.2887	0.2887
35mm, 1 & 2 channel jacket		0.30	0.3150	0.3150	0.3150	0.3150
Loading 16mm aperture card		0.25	0.2625	0.2625	0.2625	0.2625
Jacket title		0.25	0.2625	0.2625	0.2625	0.2625
Jacket notching		0.05	0.0525	0.0525	0.0525	0.0525
h. Miscellaneous						
Fiche title	per title	0.25	0.2625	0.2625	0.2625	0.2625
Indexing and document prep/hour	per hour	14.00	18.00	18.00	18.00	18.00
Camera rental	per day	95.00	95.00	95.00	95.00	95.00
i. Supplies						
NMI reader bulbs	per bulb	10.75	10.75	10.75	10.75	10.75
16mm, 100 foot roll film	per roll	6.68	6.68	6.68	6.68	6.68
16mm, 215 foot roll film	per roll	12.95	12.95	12.95	12.95	12.95
35mm, 100 foot roll film	per roll	12.95	13.95	13.95	13.95	13.95
j. Records Center Services						

**LFD
COMMENT****Sustained Operating Losses**

The report for fund 06556 shows that the division continues to have operating losses in the records management internal service fund. The office compensates for these losses with a sustained subsidy from the Secretary of State business services enterprise fund that receives revenues from entities outside of state government. The records management fund is intended to support the records management function that receives revenues from state and local governments to store and retrieve public records of government entities. With costs to provide the function consistently higher than the revenues derived from the fees charged to provide the function, the fees are not high enough to fully recover the costs of the function.

The 2001 legislature, in essence, approved this practice of not basing fees for the records management functions upon the full costs of providing the function when it passed HB 639. HB 639 added a section to law allowing fees charged by the office to be commensurate with overall costs of the Office of the Secretary of State. HB 639 allows one fee to subsidize another fee but specifies that all fees together should be adequate to recover the costs to operate the office. However, the office continues to operate using two funds, specifically established to account for separate functions, serving two different fee-paying customer groups.

The legislature may wish to either: 1) encourage the office to adjust fees for the internal service fund to levels that would make the records management function of the office self supporting and allow it to repay funds borrowed from the enterprise fund; or 2) approve fees requested for the internal service fund with full knowledge that the fees are not adequate to fully fund the functions they support.

*Secretary of State Business Services (Fund 06053)***Proprietary Program Description**

The Secretary of State business services enterprise fund is used to account for costs and revenues for all office functions, except for the records management functions. The office administers corporate filings, registers assumed names and trademarks, processes notary public registrations, and administers the Administrative Rules of Montanan (ARM) and the Montana Administration Register. The office reviews, approves, maintains, and distributes records of business and nonprofit organizations, and registers and maintains records of secured financial transactions under the Uniform Commercial Codes, including agricultural products, in accordance with the Federal Food Security Act of 1985. The Secretary of State serves as Montana's chief election official and is responsible for the interpretation of application of election laws, except those pertaining to campaign finance. The office also qualifies candidates for the ballot, qualifies initiatives and referendums for the ballot, certifies the language and form of the ballot, publishes the official state voter-information pamphlet, conducts the official canvass of election results, and trains local election officials.

Proprietary Revenues and Expenses

The table below shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows the fund balance has grown to \$2.2 million by the end of fiscal 2002 or 94 percent of annual expenses. Financial data shown for future operations indicate that this balance would remain above \$2.0 million through the 2005 biennium, even after adjustments and new initiatives for the 2005 biennium have been funded. At the end of fiscal 2002, nearly \$1.4 million of this fund balance was in cash or short-term investments.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06053	Sec Of State Business Services	32010	Secretary of State	Business & Government Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Filing Fees	1952067	1887720	2442291	2270000	2431838	2394394
Administrative Fees	62,921	80,928	197,903	185,000	199,923	209,041
Documents Sold	54,022	94,972	134,210	112,350	126,078	141,511
Miscellaneous Fees	4,193	5,199	35,285	4,000	37,401	38,929
Copy & Certificates Fees	114,705	113,492	126,739	120,000	134,133	131,508
Net Fee Revenue	2,270,143	2,240,404	2,832,504	2,691,350	2,929,373	2,915,383
Investment Earnings	47,164	51,125	27,281	40,000	20,000	10,000
Securities Lending Income	2,245	363	492	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	5,094	5,584	36,003	-	-	-
Total Operating Revenues	2,324,646	2,297,476	2,896,280	2,731,350	2,949,373	2,925,383
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	2,324,646	2,297,476	2,896,280	2,731,350	2,949,373	2,925,383
Operating Expenses:						
Personal Services	1,116,943	1,259,343	1,563,925	1,377,485	1,624,083	1,635,267
Other Operating Expenses	1,229,363	1,307,840	800,816	1,346,239	1,527,336	1,258,555
Miscellaneous, operating	11,236	26,704	29,220	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,357,542	2,593,887	2,393,961	2,723,724	3,151,419	2,893,822
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,357,542	2,593,887	2,393,961	2,723,724	3,151,419	2,893,822
Operating Income (Loss)	(32,896)	(296,411)	502,319	7,626	(202,046)	31,561
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(32,896)	(296,411)	502,319	7,626	(202,046)	31,561
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	962,049	2,036,932	1,740,521	2,242,840	2,250,466	2,048,420
Net Income (Loss)	(32,896)	(296,411)	502,319	7,626	(202,046)	31,561
Retained Earnings/Fund Balances - June 30	929,153	1,740,521	2,242,840	2,250,466	2,048,420	2,079,981
60 days of expenses (Total Operating Expenses divided by 6)	392,924	432,315	398,994	453,954	525,237	482,304

Various rates are currently published in ARMS or established by the Secretary of State's Office that allow for continued support of the office.

**LFD
ISSUE**

High Balance

The fund balance for the Secretary of State business services enterprise fund has grown to a level adequate to fund nearly a full year of operations. Given this high level and the information presented by the office for its use through the 2005 biennium, the legislature may wish to transfer a portion of this fund balance to the general fund to address the revenue shortfall.

**LFD
ISSUE
(continued)**

If the legislature transferred \$500,000 to the general fund, the fund balance would still be at a level to fund more than a half-year of expenses at the end of the 2005 biennium.

There are two issues when determining whether and to what extent to deposit the fund balance to the general fund:

- Should payers of the fees receive a rebate? Providing refunds or rebates to entities that paid fees that were higher than those needed to fund the operations of the office would provide the most equitable means to reduce the fund balance to a more appropriate level. However, the large number of entities that would receive small refunds and the costs to determine and distribute refunds significantly reduces the viability of using refunds as an option to lower the fund balance
- Is it appropriate to take fees paid by businesses and use the balance for purposes other than supporting the regulatory and service function of the office? The fees support work of the Secretary of State that do not directly benefit those paying the fees, such as the office's election duties and the Secretary of State's work on the state land board. With the fees already financing other general government services, transferring a portion of the fund balance to the general fund to further support general government services would not depart from existing practices of the office

Options

The legislature may wish to consider the following options for dealing with the high fund balance of the Secretary of State business services enterprise fund:

- Transfer a portion of the excess fund balance to the general fund. To minimize any impacts the transfer would have on the cash flow of the office, transfer half of the amount in each fiscal year
- Provide direction to the Secretary of State to charge only what is necessary to fund operations of the office, with a reasonable ending fund balance and working capital level

Proprietary Rate Explanation

The various fees that fund the secretary of state business services enterprise fund are published in the ARMS or are established by the Secretary of State.

Significant Adjustments for the 2005 Biennium

The Secretary of State included one present law adjustment and one new proposal for increased expenses totaling more than \$1.4 million for the 2005 biennium. No information was provided to determine the impact these adjustments would have on rates of the office.

Adjustments included in the rate request are:

- An increase of \$375,305 for the biennium of enterprise funds to add 7.45 FTE funded with the enterprise fund (5.00 FTE seasonal staff, 0.95 FTE exempt staff, 1.00 FTE mailroom clerk, and 0.50 FTE administrative support)

An increase of \$1,055,000 for the biennium for projects to replace or upgrade information technology resources of the office. Of the total funding \$100,000 would come from the records management internal service fund and \$955,000 would come from the Secretary of State enterprise fund and would be used to:

- Replace the system used by compliance staff to review corporation filings and other business documents for compliance with statutes regulating registration of business structures including profit and nonprofit corporations, partnerships, limited partnerships, limited liability partnerships, limited liability companies, professional limited liability companies, assumed business names, and trademarks
- Evaluate, reengineer, and automate the process used to publish changes to the ARM
- Microfilm, scan into digital images, and index corporate records such as: articles of incorporation, by-laws, and annual reports

**LFD
ISSUE****Offsetting Savings Stated but Not Included**

The justification for this request stated that the savings from reducing contractor costs, decreasing training time, and creating a pool of returning staff would offset the costs associated with funding for 5.00 FTE seasonal staff included in this request. However, the reduction isn't reflected in the anticipated expenses for the internal service fund. If the report reflected the savings the office claims, the fund balance would be \$209,000 higher by the end of the 2005 biennium than that shown on the report.

The legislature may wish to consider the stated savings and the higher fund balance this would produce when it determines if it would transfer a portion of the fund balance to the general fund.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	170,288	43,237	(36,528)	176,997	42,566	(36,427)	176,427	353,424
Operating Expenses	161,377	4,659	(20,120)	145,916	(159)	(20,120)	141,098	287,014
Total Costs	\$331,665	\$47,896	(\$56,648)	\$322,913	\$42,407	(\$56,547)	\$317,525	\$640,438
General Fund	331,665	47,896	(56,648)	322,913	42,407	(56,547)	317,525	640,438
Total Funds	\$331,665	\$47,896	(\$56,648)	\$322,913	\$42,407	(\$56,547)	\$317,525	\$640,438

Agency Description

The Commissioner of Political Practices is authorized by Title 13, Chapter 37, MCA. Additional responsibilities were defined by legislative initiative in 1980 requiring disclosure of acts by lobbyists and business interests of elected officials. The commissioner has responsibility for the ethical standards of conduct for legislators, public officers, and state employees pursuant to Title 2, Chapter 2, MCA.

Agency Discussion

Commissioner of Political Practices Major Budget Highlights	
- Funding is about \$8,750 less in fiscal 2004 and \$4,140 less in fiscal 2005 from base year expenditures - Statewide present law adjustments increase funding, while off-setting reductions eliminate a vacant FTE and continue Governor and August 2002 Special Session reductions	

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	5.00	0.00	5.00	5.00	0.00	5.00	5.00	5.00
Personal Services	213,525	(36,528)	176,997	212,854	(36,427)	176,427	356,511	353,424
Operating Expenses	166,036	(20,120)	145,916	161,218	(20,120)	141,098	329,954	287,014
Total Costs	\$379,561	(\$56,648)	\$322,913	\$374,072	(\$56,547)	\$317,525	\$686,465	\$640,438
General Fund	379,561	(56,648)	322,913	374,072	(56,547)	317,525	686,465	640,438
Total Funds	\$379,561	(\$56,648)	\$322,913	\$374,072	(\$56,547)	\$317,525	\$686,465	\$640,438

Funding

The following table show program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Administration						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 331,665	100.0%	\$ 322,913	100.0%	\$ 317,525	100.0%
Grand Total	\$ 331,665	100.0%	\$ 322,913	100.0%	\$ 317,525	100.0%

This program is funded with general fund. The commissioner charges nominal fees for printing and distribution, receives filing fees from lobbyists, and can levy civil fines for violation of campaign laws. These revenues are less than \$5,000 annually and are deposited in the general fund.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					43,237					42,566
Vacancy Savings					0					0
Inflation/Deflation					1,977					1,977
Fixed Costs					2,682					(2,136)
Total Statewide Present Law Adjustments					\$47,896					\$42,407
Grand Total All Present Law Adjustments					\$47,896					\$42,407

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Eliminate Position & On-going Reductions										
01	0.00	(56,648)	0	0	(56,648)	0.00	(56,547)	0	0	(56,547)
Total	0.00	(\$56,648)	\$0	\$0	(\$56,648)	0.00	(\$56,547)	\$0	\$0	(\$56,547)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1 - Eliminate Position & On-going Reductions - This decision package eliminates a vacant data manager position responsible for maintaining the agency database and other administrative support. The duties are being incorporated into the other two agency administrative support positions. In addition, this decision package continues the reductions of \$16,850 general fund made under 17-7-140, MCA, along with the legislature's special session reductions of \$9,225.

LFD COMMENT

The program will operate with fewer supplies and materials and other reduced operating expenses. The reduction in travel will result in less travel by the commissioner to meet with Montana candidates, committees, and other organizations as requested. Technology consulting service reductions will reduce enhancements to the agency database used to monitor report submissions and may impact timely completion of the required biennial summary of campaign finances.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	69.50	4.00	0.00	73.50	4.00	0.00	73.50	73.50
Personal Services	2,715,801	521,007	0	3,236,808	517,029	0	3,232,830	6,469,638
Operating Expenses	790,438	243,268	(43,397)	990,309	305,139	(43,397)	1,052,180	2,042,489
Equipment	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$3,506,239	\$764,275	(\$43,397)	\$4,227,117	\$822,168	(\$43,397)	\$4,285,010	\$8,512,127
General Fund	334,795	45,719	(380,514)	0	43,490	(378,285)	0	0
State/Other Special	3,171,444	718,556	337,117	4,227,117	778,678	334,888	4,285,010	8,512,127
Total Funds	\$3,506,239	\$764,275	(\$43,397)	\$4,227,117	\$822,168	(\$43,397)	\$4,285,010	\$8,512,127

Agency Description

The Office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and Securities and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities dealers in the state. The auditor also adopts rules and administers reform for the insurance and securities industries operating in the state.

Agency Discussion

Office of the State Auditor Major Budget Highlights	
○ Total funding increases about \$1.2 million over the 2003 biennium appropriation ○ Office is requesting an additional 4.00 FTE, along with increased funding for contract examinations of insurance and investment companies ○ A funding switch would eliminate general fund, although with no net general fund impact ○ Budget balancing items provide a \$119,400 biennium savings, reducing personal services by \$30,300 and operating expenses by \$89,100	
Major LFD Issues	
○ Additional FTE ○ Securities Program funding	

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget			
Agency Program	State Spec.	Grand Total	Total %
Central Management	\$ 1,069,974	\$ 1,069,974	12.6%
Insurance	6,129,359	6,129,359	72.0%
Securities	1,312,794	1,312,794	15.4%
Grand Total	<u>\$ 8,512,127</u>	<u>\$ 8,512,127</u>	<u>100.0%</u>

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	73.50	0.00	73.50	73.50	0.00	73.50	69.50	73.50
Personal Services	3,236,808	0	3,236,808	3,232,830	0	3,232,830	5,668,253	6,469,638
Operating Expenses	1,033,706	(43,397)	990,309	1,095,577	(43,397)	1,052,180	1,633,822	2,042,489
Equipment	0	0	0	0	0	0	15,655	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$4,270,514	(\$43,397)	\$4,227,117	\$4,328,407	(\$43,397)	\$4,285,010	\$7,317,730	\$8,512,127
General Fund	380,514	(380,514)	0	378,285	(378,285)	0	658,140	0
State/Other Special	3,890,000	337,117	4,227,117	3,950,122	334,888	4,285,010	6,659,590	8,512,127
Total Funds	\$4,270,514	(\$43,397)	\$4,227,117	\$4,328,407	(\$43,397)	\$4,285,010	\$7,317,730	\$8,512,127

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 1 - Securities Program Funding Switch										
04	0.00	(380,514)	380,514	0	0	0.00	(378,285)	378,285	0	0
DP 2 - Additional Reductions										
04	0.00	0	(43,397)	0	(43,397)	0.00	0	(43,397)	0	(43,397)
Total	0.00	(\$380,514)	\$337,117	\$0	(\$43,397)	0.00	(\$378,285)	\$334,888	\$0	(\$43,397)

Agency Issues

LFD ISSUE

Additional FTE

The Auditors Office is requesting additional state special revenue to fund 4.00 new FTE, including three insurance examiners and one security analyst. Although these are non-general fund requests, unspent revenue in the insurance fee account and securities fee account is transferred to the general fund. Therefore, the addition of these positions will reduce revenue to the general fund.

Examination costs, including travel and per diem, are recoverable through examination fees charged to the insurance companies for exams conducted by these new employees. However, associated operating costs such as computer, supplies and equipment, and long distance charges are additional state expenses. The office conducts exams through a mix of in-house staff and contracted examiners. Contract examiners are used for statutorily required routine exams conducted every five years to ensure companies financial soundness and compliance with statute. In-house examiners provide targeted exams, review applications, investigate complaints, and conduct some routine exams.

The issue for legislative consideration is whether new demands and workload increases warrant the need for additional FTE or if existing resources combined with the contract examiner funding requests (Program 03-DP 6 and Program 04-DP 7) could meet the additional demands. New FTE in the Insurance Program would allow the office to implement new activities not previously undertaken by the office, including market conduct examinations and captive insurance program. An additional FTE in the Securities Program is based on additional demands in the securities industry. Refer to individual decision packages for information and options regarding these requests.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	342,208	92,567	0	434,775	91,911	0	434,119	868,894
Operating Expenses	109,346	(6,582)	0	102,764	(11,030)	0	98,316	201,080
Total Costs	\$451,554	\$85,985	\$0	\$537,539	\$80,881	\$0	\$532,435	\$1,069,974
State/Other Special	451,554	85,985	0	537,539	80,881	0	532,435	1,069,974
Total Funds	\$451,554	\$85,985	\$0	\$537,539	\$80,881	\$0	\$532,435	\$1,069,974

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the State Auditor's Office. The division also supports activities related to the Auditor's membership on the state land and hail insurance boards.

Central Management Division Major Budget Highlights	
o	Statewide present law adjustments increase funding by \$86,000 and \$80,900 in each year.
o	Operating expenses decrease due to lower fixed costs in some categories and reallocating some to the insurance program.
o	Personal services increase 27 percent over base year expenditures primarily due to annualization of the pay plan and full funding of FTE that were vacant during the base year

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Central Management						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02235 Insurance Fee Account	\$ 434,490	96.2%	\$ 505,294	94.0%	\$ 500,457	94.0%
02283 Securities Fee Account	17,064	3.8%	32,245	6.0%	31,978	6.0%
Grand Total	\$ 451,554	100.0%	\$ 537,539	100.0%	\$ 532,435	100.0%

This program is funded from the insurance fee and securities fee accounts, which draw their revenue from percentages charged to the industry on the sale of insurance and securities in Montana.

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					107,211					106,538
Vacancy Savings					(14,644)					(14,627)
Inflation/Deflation					529					590
Fixed Costs					(7,111)					(11,620)
Total Statewide Present Law Adjustments					\$85,985					\$80,881
Grand Total All Present Law Adjustments					\$85,985					\$80,881

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	47.50	3.00	0.00	50.50	3.00	0.00	50.50	50.50
Personal Services	1,967,501	321,944	0	2,289,445	319,646	0	2,287,147	4,576,592
Operating Expenses	566,962	172,921	0	739,883	245,922	0	812,884	1,552,767
Equipment	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$2,534,463	\$494,865	\$0	\$3,029,328	\$565,568	\$0	\$3,100,031	\$6,129,359
State/Other Special	2,534,463	494,865	0	3,029,328	565,568	0	3,100,031	6,129,359
Total Funds	\$2,534,463	\$494,865	\$0	\$3,029,328	\$565,568	\$0	\$3,100,031	\$6,129,359

Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Bureau resolves insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau monitors the financial solvency of insurance companies, collects premium taxes and company fees, and audits insurance company annual statements. The Rates and Forms Bureau reviews form filings and rate filings to ensure compliance with the applicable insurance code. The Licensing Bureau licenses and provides continuing education to insurance agents, agencies, and adjusters. The Investigations Bureau investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Narrative

Insurance Division Major Budget Highlights	
○	Funding increases about \$500,000 in fiscal 2004 and \$565,000 in fiscal 2005 over base year expenditures
○	Statewide present law adjustments add about \$200,000 each year due to annualization of the pay plan and a higher proportion of fixed costs charged to this program
○	Other increases are attributed to an additional 3.00 FTE and funding for contract insurance examinations

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Insurance						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02235 Insurance Fee Account	<u>\$ 2,534,463</u>	<u>100.0%</u>	<u>\$ 3,029,328</u>	<u>100.0%</u>	<u>\$ 3,100,031</u>	<u>100.0%</u>
Grand Total	<u>\$ 2,534,463</u>	<u>100.0%</u>	<u>\$ 3,029,328</u>	<u>100.0%</u>	<u>\$ 3,100,031</u>	<u>100.0%</u>

This program is funded from the insurance fee account, which draws its revenue from a percentage charge against every insurance policy sold in the state, as well as from charges for insurance company examinations and fees paid by individual agents.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				258,506					256,610
Vacancy Savings				(89,038)					(88,968)
Inflation/Deflation				3,819					4,309
Fixed Costs				36,440					17,776
Total Statewide Present Law Adjustments				\$209,727					\$189,727
DP 3 - Market Conduct Examiners									
2.00	0	119,372	0	119,372	2.00	0	110,493	0	110,493
DP 4 - Captive Insurance FTE									
1.00	0	58,479	0	58,479	1.00	0	54,061	0	54,061
DP 6 - Contract Insurance Examinations									
0.00	0	107,287	0	107,287	0.00	0	211,287	0	211,287
Total Other Present Law Adjustments									
3.00	\$0	\$285,138	\$0	\$285,138	3.00	\$0	\$375,841	\$0	\$375,841
Grand Total All Present Law Adjustments				\$494,865					\$565,568

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Market Conduct Examiners - This request is for 2.00 FTE, grade I6 and grade I7, market conduct examiners to review insurer's market place practices to determine what they are and what they should be. Most of the costs associated with these positions will be recovered from the companies. Examination costs can be charged to the company and the company will reimburse the auditor for these costs.

LFD COMMENT

Examination costs are recovered through the insurance companies, but some costs such as, equipment and supplies, training, and long distance charges would remain a state expense.

LFD ISSUE

A Market Conduct Examination is conducted to ensure equitable treatment of policyholders, determine compliance with statutes and regulations regarding writing insurance policies, advertising products, setting rates and handling claims, and actively monitor the insurance marketplace. Examinations are performed through a review of an insurer's market place practices, conducted by qualified full-time examiners while on site at the company. The process of market conduct exams allows early identification of potential problem areas resulting in long-term protection of the consumer and ensures equal treatment of insurers.

The National Association of Insurance Commissioners (NAIC) recommends that every state establish a separate market conduct division to regulate these activities and ensure the fair treatment of policyholders. A fall "2001 NAIC Journal of Insurance Regulation" report indicates that in 1998, there were 32 states with separate market conduct units, 12 of which used a combination of in-house and contract examiners. Three additional states conducted exams only through contracted services. Montana intended to regulate these activities with existing staff in the Policy Holder Services bureau. A budget amendment has recently been submitted to conduct the office's first market conduct exam as a result of numerous policy holder complaints regarding one of the largest insurance companies doing business in Montana. The anticipated cost is \$12,000 and will be conducted through contracted services. If additional FTE are not authorized through this decision package, market conduct exams could be conducted through the office's contracted insurance examination process and funding for such is requested through DP 6.

**LFD
ISSUE
(continued)**

The NAIC also recommends that each state initially should thoroughly assess and analyze its market and then attempt to dedicate adequate resources to the market conduct examination process.

"...the focus of any program needs to be on the proper application of market conduct examinations and not just upon obtaining a specified number of staff members. In general, adequate time should be spent to develop a Market Conduct Analysis and Examination Program." (NAIC Market Conduct Examination Resources, May 22,2002)

Such an analysis would consider the number of companies conducting business within the state and involve reviewing complaint indices and information from other states, determining the role of market conduct examinations, use of routine versus targeted exams, use of contracted versus in-house examiners, and drafting an examination scheduling plan. The legislature may want to direct the auditor's office to conduct a market analysis prior to funding additional FTE for this activity.

Options:

- o Provide funding to the office to develop a market analysis and examination program without additional FTE
- o Authorize one FTE to develop a market conduct analysis and examination program and perform examinations during the next biennium. If the analysis identifies the need for additional resources they could be requested during the next biennium
- o Approve this decision package as submitted and reduce DP 6 by \$120,000 per year
- o Fund either option two or three at the entry level for each position for a general fund savings of \$7,800 per year under option two and \$16,500 per year under option three
- o Fund options two, three, or four and designate funding for computers (\$2,702) and supplies and minor equipment (\$3,340) as one-time-only
- o Take no action on this decision package, but fully fund DP 6 authorizing funding for market conduct exams as part of the contracted insurance examination process

DP 4 - Captive Insurance FTE - The 2001 legislature passed SB 373, which allows captive insurance companies to operate in Montana. The State Auditor's Office was appropriated \$20,000 each year of the 2003 biennium for operating expenses only. Currently, the auditor has licensed three companies and anticipates an additional two by the end of the year. This proposal would provide 1.00 FTE, Grade 15, insurance examiner to approve the applications of prospective captives and conduct the examinations of captive insurance companies licensed in Montana.

**LFD
ISSUE**

Captive insurance refers to a subsidiary corporation established to provide insurance to the parent company. These companies are owned by its policyholders and are able to underwrite their own insurance rather than pay premiums to third-party insurers. Advantages include; 1) the ability to establish premiums based on the company's risk rather than industry loss averages; 2) savings on overhead costs associated with marketing, claims and regulatory compliance; 3) ability to control costs; greater control over claims; 4) funding and underwriting flexibility; 5) ability to tailor coverage to meet needs; and 6) less regulation. Captive insurance companies in Montana pay a minimum of \$5,000 per year in premium taxes. At least one new business has started in Montana related to the captive insurance industry, Big Sky Captive Managers in Missoula.

**LFD
ISSUE
(continued)**

The auditor's office has received six applications, to date, of which three companies were licensed, one application was denied, and two reviews are still underway. Application reviews and licensing approvals were conducted through existing staff during the 2003 biennium. Of the annual \$20,000 provided, \$109 was expended in fiscal 2002 and \$6,800 in the first five months of fiscal 2003. The auditor's office anticipates an increase in the number of applications based on trends in other states. For example, Vermont, the U.S. leader in captive insurance operations, began its program in 1981 licensing 3 captives by 1982, 10 per year from 1983 to 1985, and 17 to 51 per year thereafter. The request is based on an anticipated increase in applications and requirements of SB 373 to conduct examinations of captive insurers every three years to ascertain each company's financial condition, its ability to fulfill its obligations and whether it has complied with statute. In addition, organizational reviews are conducted within the first year of licensing. If approved, the legislature may want to designate the computer (\$1,351) and supplies and minor equipment costs (\$1,670) as one-time-only. In addition, the legislature may want to fund the position at entry level for a grade 15 providing a general fund savings of about \$7,000 per year.

DP 6 - Contract Insurance Examinations - This request adjusts the line item for insurance contract exams for the new biennium. The expenses will be offset by examination cost reimbursements from insurance companies. The requested funding is based upon the examination schedule for the 2005 biennium.

**LFD
COMMENT**

This proposal continues the restricted appropriation for contract examinations and adjusts the funding to meet projected costs for the 2005 biennium. State statute (33-1-401, MCA) requires the auditor's office to examine domestic insurers once every five years. Base year expenditures for this activity were about \$92,000. This request combined with the base amount increases funding for contract insurance examinations to almost \$199,000 in fiscal 2004 and \$302,000 in fiscal 2005. Approximately six to eight companies are examined each year and funding required per year fluctuates depending on the schedule and size of the companies being examined.

**LFD
ISSUE**

The 2005 biennium schedule includes \$120,000 each year for market conduct examinations. If the prior decision package (DP 3), adding FTE for market conduct exams, is approved this decision package can be reduced by \$120,000 each year.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	12.00	1.00	0.00	13.00	1.00	0.00	13.00	13.00
Personal Services	406,092	106,496	0	512,588	105,472	0	511,564	1,024,152
Operating Expenses	114,130	76,929	(43,397)	147,662	70,247	(43,397)	140,980	288,642
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$520,222	\$183,425	(\$43,397)	\$660,250	\$175,719	(\$43,397)	\$652,544	\$1,312,794
General Fund	334,795	45,719	(380,514)	0	43,490	(378,285)	0	0
State/Other Special	185,427	137,706	337,117	660,250	132,229	334,888	652,544	1,312,794
Total Funds	\$520,222	\$183,425	(\$43,397)	\$660,250	\$175,719	(\$43,397)	\$652,544	\$1,312,794

Program Description

The Securities Division administers and enforces the Securities Act of Montana, which includes registering securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives. The division is also responsible for investigating unregistered and fraudulent securities transactions, and has sole jurisdiction for investment advisor firms with assets of under \$25 million. The division investigates securities code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Narrative

Securities Division Major Budget Highlights	
o	Total funding increases about \$140,000 in fiscal 2004 and \$130,000 in fiscal 2005 over base year expenditures
o	Increases are due to statewide present law adjustments, the addition of 1.00 FTE securities analyst, and increases in security contract examinations
o	Budget balancing reductions offset increases by approximately \$59,700 each year
o	A funding switch eliminates general fund within the program and agency, although there is no net impact to the general fund

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor

Program Funding Table Securities						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 334,795	64.4%	\$ -	-	\$ -	-
02283 Securities Fee Account	185,427	35.6%	660,250	100.0%	652,544	100.0%
Grand Total	\$ 520,222	100.0%	\$ 660,250	100.0%	\$ 652,544	100.0%

This program is funded with state special revenue from the securities fee account, which draws its revenue from securities portfolio registration fees charged to investment advisors and investment companies. Unspent collections are deposited to the general fund and were approximately \$2.2 million in fiscal 2002.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				99,163						98,232
Vacancy Savings				(20,210)						(20,175)
Inflation/Deflation				384						567
Fixed Costs				(8,453)						(11,043)
Total Statewide Present Law Adjustments				\$70,884						\$67,581
DP 2 - Securities Examiner/Analyst										
1.00	0	50,229	0	50,229		1.00	0	45,826	0	45,826
DP 7 - Securities Contract Examinations										
0.00	0	78,626	0	78,626		0.00	0	78,626	0	78,626
DP 8 - Special Session Reductions										
0.00	0	(16,314)	0	(16,314)		0.00	0	(16,314)	0	(16,314)
Total Other Present Law Adjustments										
1.00	\$0	\$112,541	\$0	\$112,541		1.00	\$0	\$108,138	\$0	\$108,138
Grand Total All Present Law Adjustments				\$183,425						\$175,719

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - Securities Examiner/Analyst - This proposal requests funding for an additional 1.00 FTE, grade 14, securities analyst to address the increase in both the number of issuers filing with the department and the number of individuals registered to sell as broker dealer agents. The new position would provide support and consultation for those efforts. In addition, the federal government recently passed legislation (Gramm-Leach-Bliley) that permits banks and insurance companies to expand their activities in the securities markets. The State Auditor's Office anticipates that this will further increase demands.

LFD ISSUE

This request is based on anticipated demands in the securities industry. Over the past ten years, there have been 2.50 FTE security analysts in the division. During that same timeframe, firms filing with the auditor's office have increased from less than 1,000 to near 2,000, and the number of issuers registering to sell their securities has increased from under 1,000 to over 9,000 filers annually. The broker-dealer examination function could be conducted through routine contracted securities exams. However, additional duties of the position include application and consumer complaint reviews of broker dealers, multi-level marketing companies, and living trust companies. Figure 1 provides information on security regulation in Montana.

Options:

- o Fund the FTE as submitted, allowing more aggressive oversight of security broker dealers, multi-level marketers, and living trust companies
- o Fund the FTE at the entry salary for a grade 14, for an approximate \$6,100 savings per year
- o Fund the FTE through option one or two and designate \$1,351 for computer equipment as one-time-only
- o Take no action on this decision package

Figure 1
Securities Program Indicators

Regulated Entity	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	Estimated FY2003
Broker-Dealer & Investment Advisory firms (1)	\$ 1,100	\$ 1,150	\$ 1,200	\$ 1,250	\$ 1,350	\$ 1,476	\$ 1,525
Investment Advisory firms (2)	300	325	350	375	400	450	500
Broker-Dealer branches (Montana only) (3)	0	0	0	0	0	0	350
Salespeople (4)	38,000	42,000	45,000	48,000	52,000	53,800	55,000
Issuers (5)	7,819	8,529	8,880	10,101	10,231	9,886	13,000
Multi-Level Marketing Company (6)	0	0	0	50	100	150	200
Total Firms/People regulated	\$47,219	\$52,004	\$55,430	\$59,776	\$64,081	\$65,762	\$ 70,575

- (1) \$200/year fee collected annually per firm
 (2) \$200/year fee collected annually per firm
 (3) Proposed legislation in FY2003 session would require all brokerage firms with Montana branches to register with Department and pay fee
 (4) \$50/year fee collected annual per salesperson
 (5) Average annual fee paid per issuer calculated at \$250
 (6) Proposed legislation in FY2003 session would require all Multi-Level Marketing Companies to pay an annual fee of \$200

DP 7 - Securities Contract Examinations - This request adjusts the line item for Securities Contract Exams for the new biennium. The expenses will be offset by examination cost reimbursements from investment companies. The requested funding is based upon the examination schedule for the 2005 biennium.

**LFD
COMMENT**

This request continues funding for examinations of investment advisors at the current year appropriation level of \$12,000. In addition, \$77,615 is added for proposed broker-dealer examinations. Although statute implies that examinations be conducted, there is no mandatory requirement to do so on a routine basis. This proposal would increase funding to move the office toward routine examinations of at least 200 broker dealer branch offices in Montana. Exams would be conducted on a three-year cycle at a cost of \$25 per hour. The office estimates about 2,360 hours of exams per year at a cost of \$59,000 plus an additional \$18,600 for travel, lodging, and per diem.

DP 8 - Special Session Reductions - The total amount of on-going reductions, as a result of the special session for the biennium, is \$32,628 of general fund. Of this amount, \$30,322 is taken from personal services and \$2,306 is taken from operating.

**LFD
COMMENT**

Impacts of this reduction are not specified by the auditor's office.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 1 - Securities Program Funding Switch										
04	0.00	(380,514)	380,514	0	0	0.00	(378,285)	378,285	0	0
DP 2 - Additional Reductions										
04	0.00	0	(43,397)	0	(43,397)	0.00	0	(43,397)	0	(43,397)
Total	0.00	(\$380,514)	\$337,117	\$0	(\$43,397)	0.00	(\$378,285)	\$334,888	\$0	(\$43,397)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 1 - Securities Program Funding Switch - This decision package proposes to eliminate the general fund appropriation for the securities program and fund the entire program with state special revenue collected from portfolio revenue. Currently, the program is funded with approximately \$335,000 of general fund and \$205,000 of state special revenue per year. The fund switch will have a net impact of zero on the general fund because the amount that would have been deposited into the general fund will not be appropriated from the general fund.

**LFD
ISSUE**
Program Funding

The securities program collects a variety of fees and taxes from security dealers. 30-10-115, MCA requires that the majority of these fees be deposited to the general fund, except for examination costs and portfolio notice filing fees.

Historically, this program has been primarily a general fund program. The 1993 legislature created the portfolio registration program to conduct merit review of each securities portfolio registered and established a new registration fee on portfolios to be deposited into a state special revenue account. Funding of the program has shifted from 100 percent general fund prior to fiscal 1994 to a combination of general fund and state special revenue since. Total agency funding has moved from 80 percent general fund during the 1997 biennium to about nine percent during the 2003 biennium due to replacing general fund within the insurance and central management programs, with state special revenue from the insurance fee account.

**LFD
ISSUE
(continued)**

Because all un-appropriated fees are deposited to the general fund, this request has no overall impact on general fund. Revenues to the general fund will be reduced by a like amount. Therefore, funding of the program is a policy consideration for the legislature. Use of the state special revenue account can insure that particular functions of government are not subsidized inappropriately by other funding sources and can make it easy to track changes in costs and revenues. Funding from the general fund provides more legislative control over the budget and allows the legislature to collectively consider the importance of general fund programs from all agencies when setting funding priorities.

Options:

- Continue funding the program with a combination of general fund and state special revenue
- Fund the program as proposed, entirely with state special revenue
- Fund the program entirely with general fund

DP 2 - Additional Reductions - In order to meet the biennial target consistent with other agencies, additional reductions of \$86,794 were taken from operating for the biennium. When the state special revenue is not spent, it is deposited to the general fund as revenue.

**LFD
COMMENT**

August 2002 Special Session reductions reduced funding by \$16,314 in fiscal 2003, which is continued into the 2005 biennium through DP 8. This proposal further decreases funding annually by \$43,397, for a total general fund savings of \$59,711 per year. The reduction is 1.7 percent of the office's total base year expenditures. Impacts of this reduction are not specified.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2,170.16	5.55	(12.03)	2,163.68	(45.63)	(12.03)	2,112.50	2,112.50
Personal Services	92,274,059	13,861,949	(529,145)	105,606,863	12,496,506	(533,568)	104,236,997	209,843,860
Operating Expenses	322,091,651	105,638,598	8,673,021	436,403,270	109,771,809	3,820,000	435,683,460	872,086,730
Equipment	1,133,344	102,656	0	1,236,000	102,656	0	1,236,000	2,472,000
Capital Outlay	10,125,530	2,196,375	0	12,321,905	2,196,375	0	12,321,905	24,643,810
Grants	6,989,629	3,400,696	0	10,390,325	2,367,696	0	9,357,325	19,747,650
Transfers	25,452	0	0	25,452	0	0	25,452	50,904
Debt Service	375	0	0	375	0	0	375	750
Total Costs	\$432,640,040	\$125,200,274	\$8,143,876	\$565,984,190	\$126,935,042	\$3,286,432	\$562,861,514	\$1,128,845,704
General Fund	0	0	0	0	0	0	0	0
State/Other Special	149,258,584	72,365,330	478,874	222,102,788	93,921,879	(756,400)	242,424,063	464,526,851
Federal Special	283,381,456	52,834,944	7,665,002	343,881,402	33,013,163	4,042,832	320,437,451	664,318,853
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$432,640,040	\$125,200,274	\$8,143,876	\$565,984,190	\$126,935,042	\$3,286,432	\$562,861,514	\$1,128,845,704

Agency Description

The Department of Transportation is responsible for serving the public by establishing and maintaining a transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality.

Agency Discussion

Department of Transportation Major Budget Highlights	
- Total fund budget increases by \$132.8 million or 13.3 percent over the biennium compared to the 2003 biennium - Bond proceeds for Highway 93 add \$87.6 million state special revenue for the biennium to accelerate the Highway 93 project - An information technology project to integrate financial management systems adds \$8.0 million federal funds for the biennium - Staffing is reduced by 6.48 FTE in fiscal 2004 and 57.66 FTE in fiscal 2005 - Decision packages are included to offset the impacts of broadband pay plan increases given in fiscal 2002	
Major LFD Issues	
- Decision packages only offset a portion of the broadband pay plan salary increases given in fiscal 2002 - Use of indirect cost plan reimbursements - Impacts of .08 blood alcohol concentration laws - Impacts of repeat driving while intoxicated sentencing laws	

Highways State Special Revenue Account Stability

State funding for highway construction, maintenance, and other highway-related administrative and enforcement costs comes from the highways state special revenue account (HSRA). The executive has proposed a budget that depletes the account balance, with expenditures that exceed revenues by nearly \$22 million for the 2005 biennium. Left as proposed, ongoing expenditures are projected to exceed expected revenues throughout the foreseeable future and would move the

account into a negative balance condition in fiscal 2007. The following discussion identifies factors that impact the stability of the account and a working capital analysis of the account is provided at the end of the discussion to illustrate the account financial profile.

Department-Wide Move to the Broadband Pay Plan

Broadband Pay Plan

During the 2003 biennium, the executive has moved a large number of state employees to a newly developed position classification and compensation system. Under the authority of 2-18-303, MCA, the State Personnel Division of the Department of Administration developed the alternative classification and compensation system known as the broadband pay plan. The broadband pay plan was developed to address several human resources management challenges, like employee recruitment and retention that agencies state was evident by high staff turnover rates. The broadband pay plan places FTE into fewer position classifications with wider ranges between minimum and maximum pay levels than the other existing classification systems. (For a further discussion, see Volume 1 of the LFD Executive Budget Analysis.)

Department of Transportation Moved to the Broadband Pay Plan

The personal services budgets for all programs of the Department of Transportation (department) contain a common factor contributing to budget growth -- the department-wide move to the broadband pay plan. The department changed a large number of its staff to the broadband pay plan beginning in August 2001. The department subsequently provided salary adjustments, exclusive of increases in the state pay plan (HB 13), for positions that were moved to the broadband pay plan. The 2001 legislature did not provide funding to pay for salary increases associated with the broadband pay plan. As such, the department funded increases in the 2003 biennium with other legislative appropriations and with the use of carry-forward authority from prior year appropriation reversions. (The use of 30 percent of prior year reverted appropriation authority is allowed under current budget statutes.) While the broadband pay plan in and of itself does not automatically result in personnel cost increases, the decision of the department to provide pay increases under the plan results in personal services cost increases that are now built into the base and are ongoing.

Figure 1 shows the staffing profiles, by pay plan, existing in the department when the HB 2 personal services budgets were developed for the 2003 and 2005 biennia. When the 2003 biennium budget was developed, the department had no employees being compensated under the broadband plan. The majority of positions were being compensated under the statewide classification, blue-collar, and information technology and engineering pay plans and the average salary for agency employees was \$12.98 per hour. At the end of fiscal 2002, when the budget development snapshot was taken to develop the 2005 biennium personal services budgets, the percent of department employees in the blue-collar plan had not changed appreciably, but the majority (65.3 percent) of department employees were in the broadband plan and the average agency salary had grown to \$14.66 per hour, or an increase of roughly 13 percent. During this time, the statewide pay increases were 3 percent for fiscal 2001 and 4 percent for fiscal 2002.

Figure 1 Department of Transportation Staffing Profiles for Budget Development (HB 2 Funding Only)				
Pay plan	Percentage		Average Hourly Salary	
	2003 Biennium	2005 Biennium	2003 Biennium	2005 Biennium
Broadband Plan (Pay plan 020)	0.0%	65.0%	\$ -	\$ 14.63
Statewide Classification Plan (Pay plan 060)	53.3%	3.0%	10.30	15.80
Exempt Employee Plan (Pay plan 061)	0.0%	0.0%	38.16	40.35
Blue-Collar Plan (Pay plan 062)	29.7%	31.9%	13.84	14.48
Information Technology and Engineering Plan (Pay plan 068)	16.9%	0.0%	18.11	25.11
Agency average hourly salary			\$ 12.58	\$ 14.14

As stated, funding was not provided by the legislature for the department to move to the broadband pay plan, and the

department used available appropriation authority to fund these increases during the 2003 biennium. Under the current personal services funding process, once the hourly salaries were increased, the higher salaries in effect at the time of the budget snapshot become the basis for determining future personal services funding. Since the broadband pay plan salary increases were effective before the budget development snapshot, the higher salaries resulting from broadband plan pay adjustments were automatically included in the personal services funding for each program in statewide personal services adjustments. Pay raises granted by the legislature in HB 13 are also included in the 2005 biennium statewide present law adjustments. As such, additional costs resulting from broadband plan pay adjustments are among other adjustments and not correspondingly broken out specifically. Historically, personal services and resulting statewide adjustments were assumed to be representative of legislative funding decisions for personal services. With a large number of pay increases resulting from the department-wide movement to the broadband plan, this is no longer the case. The legislature may not have intended or foreseen that the alternative compensation and pay plan (broadband pay plan) would result in large increases in personal services costs without specific legislative funding decisions.

The executive has stated that agencies would be required to provide decision packages for reductions to offset the costs of broadband pay plan increases as part of their 2005 biennium budget requests. The department has provided decision packages to offset these increases. These decision packages are summarized in Figure 2. The decision packages all reduce operating costs to fund increases in personal services costs.

Figure 3 illustrates, for each program with HB 2 funding, the estimated base inflationary impacts resulting from the broadband plan. These estimates were taken from the state human resource system as accumulations of hourly salary increases given to individuals and then adjusted to show an annual amount. The majority of broadband pay plan increases were given in addition and prior to application of HB 13 increases. The estimates shown in Figure 3 show the annualized impacts of salaries and associated benefit increases, but do not show the compounding impact of HB 13 increases applied to higher salaries that existed after broadband pay plan increases were given. It appears from a comparison between Figures 2 and 3 that, the department has included offsetting adjustments for only a portion of the broadband pay plan increases given. The legislature may wish to consider these increases when funding personal services for the department.

Figure 2
Negative Decision Packages
Offset Broadband Pay Plan Increases

Program	Fiscal 2004	Fiscal 2005
General Operations (01)	\$ 216,869	\$ 216,869
Construction (02)	1,144,197	1,144,197
Maintenance (03)	184,434	184,434
Motor Carrier Services (22)	41,016	41,016
Transportation Planning (50)	165,212	165,212
Department of Transportation	<u>\$ 1,751,728</u>	<u>\$ 1,751,728</u>

Figure 3

Annualized Cost of Broadband Pay Plan Increases
Given in Fiscal 2002

Department of Transportation
(HB 2 Funding - Salaries and Benefits)

Program	
General Operations (01)	\$ 274,290
Construction (02)	1,671,189
Maintenance (03)	255,329
Motor Carrier Services (22)	62,010
Aeronautics (40)	12,950
Transportation Planning (50)	133,275
Department of Transportation (HB 2 programs)	<u>\$ 2,409,043</u>

Personal Services Changes

Statewide adjustments for personal services for all programs of the department are divided into two adjustments shown separately on budget tables: 1) those to fully fund all authorized positions; and 2) those to apply a vacancy savings reduction. The adjustment to fully fund all authorized positions is intended to adjust program budgets to reflect the pay levels existing when the budget development snapshot was taken and also to adjust for legislative pay increases scheduled to occur between the time the snapshot was taken and the budgets would be implemented. These adjustments are for both pay scale increases and health insurance increases funded by the state. Actual vacancy rates and position pay change decisions that occurred during the base year impact the statewide adjustments in

amount and percentage growth over the base. Figure 4 breaks the statewide personal services adjustments into causes for all programs funded in HB 2. The table shows four categories that make up the adjustments: 1) adjustments because of the difference in pay hours between the base and fiscal 2004 (Hour Difference); 2) adjustments for pay matrix adjustments and health insurance increases in HB 13 of the 2001 legislature (HB 13); 3) impacts of the actual vacancy rate in the base year (Vacancies); and 4) impacts because the base included only a partial year of broadband pay plan

increases (Broadband Pay Plan).

As the legislature considers the personal services budget for the department, it might wish to consider some of the factors that contributed to personal services increases. For example, increases because of high levels of vacancies in a program may signal an overstaffing, if the program was able to deliver statutory services while incurring high levels of vacancies. The broadband pay plan increases discussed above are ongoing costs that increase administrative costs of administering the highway construction program and operating the state transportation system.

Sanctions in Federal funding Legislation

Federal highway funding legislation provides the majority of funds to construct and maintain Montana's highways. The current laws that direct how these federal funds are to be allocated and spent contain clauses that would impact Montana's share and use of these federal funds. Three areas would directly impact federal-aid highway construction funding for Montana unless legislative action occurs: 1) blood alcohol content limit; 2) repeat offender penalties for driving under the influence

of alcohol; and 3) open container laws. The executive has recommended legislation to address these three policy areas. The impacts on federal-aid highway funds are summarized below. The department budget has been submitted under the assumption that laws to implement these three federal requirements would be enacted by the legislature.

Blood Alcohol Content Laws

The United States Department of Transportation appropriations act for federal fiscal 2001 contained requirements stating that states that do not adopt .08 blood alcohol concentration (BAC) laws by federal fiscal 2004 would have certain federal-aid highway construction funds withheld and potentially lost if the required laws are not enacted by the states. Figure 5 summarizes the impacts on Montana federal-aid highway funding under current funding levels if laws meeting the federal requirements are not enacted. Legislation has been requested by the executive to amend relevant Montana laws to meet the federal requirements.

States that do not meet the requirement to have a .08 BAC law would have 2 percent of certain federal-aid highway construction funds withheld starting in federal fiscal 2004 and increasing 2 percent each year the requirements were not met, with 8 percent the maximum withheld each year. States that met the requirement by October 1, 2007, would not lose the funds withheld and would see corresponding increases in federal funds to recover the withheld amount. Each year after October 1, 2007, states that still fail to meet the requirements would permanently lose the funds withheld four years prior to that fiscal year. An added benefit to establish .08 BAC and drunk driver laws is that additional grant funding is available for states that are in compliance to the federal standards.

The Department of Justice is compiling information to determine what impact lowering the BAC to .08 might have on the department budget, but does not have any preliminary projections at this time. The Department of Corrections projects there could be an additional 46 offenders who might be convicted of a felony based on lowering the BAC to .08. Based on the projection by the Department of Corrections, the biennial cost of these additional offenders would be \$1.0 million for the 2005 biennium.

Figure 4
Department of Transportation
Personal Services Changes

Program	Change Amount	Total Change	Makeup of Change			
			Hour Difference	HB 13	Vacancies	Broadband Pay Plan
General Operations (01)	\$1,314,573	18.9%	0.9%	5.0%	10.6%	2.3%
Construction (02)	3,594,901	7.8%	0.8%	4.1%	1.1%	1.9%
Maintenance (03)	4,161,452	12.9%	0.8%	4.3%	7.0%	0.8%
Motor Carrier Services (22)	513,236	12.9%	0.7%	4.4%	7.0%	0.7%
Aeronautics (40)	62,769	15.4%	0.8%	4.4%	8.4%	1.8%
Transportation Planning (50)	207,524	7.4%	0.7%	4.0%	0.5%	2.1%

Figure 5
Impacts on Federal Highway Funding
Failure to Enact .08 BAC Laws
(in \$ Millions)

Federal Fiscal	Funds to be Withheld		Lapse Amount
	Percent	Estimated Amount	
2004	2%	\$ 3.8	\$ -
2005	4%	7.7	-
2006	6%	11.5	-
2007	8%	15.3	-
2008	8%	15.3	3.8
2009	8%	15.3	7.7
2010	8%	15.3	11.5
2011	8%	15.3	15.3
2012	8%	15.3	15.3

Figure 6

Impacts of Federal Highway Funding Requirements
Repeat Offender Penalties and Open Container Laws
(in \$ Millions)

Federal Fiscal	Fund Transfer - Repeat Offender Penalties		Fund Transfer - Open Container	
	Percent	Amount	Percent	Amount
2000	1.5%	\$ 2.8	1.5%	\$ 2.8
2001	1.5%	2.8	1.5%	2.8
2002	3.0%	5.6	3.0%	5.6
2003	3.0%	5.6	3.0%	5.6
2004	3.0%	5.6	3.0%	5.6
2005	3.0%	5.6	3.0%	5.6

Repeat Offender Penalties for Drunk Drivers

Federal highway funding laws require states to enact laws that provide minimum penalties for repeat offenders sentenced for driving while intoxicated or driving under the influence. Under these funding laws, a portion of the federal-aid highway construction funds would be unable to be used for highway construction activities and would be restricted to use in alcohol-impaired driving counter-measures activities. Legislation has been requested by the executive to amend relevant Montana laws to meet the federal requirements. Figure 6 summarizes the federal funding that would be impacted by this requirement. As shown, Montana is already experiencing the restriction of funds.

Open Container

Federal highway funding laws require states to enact laws that prohibit the possession of any open alcohol beverage container, or the consumption of any alcoholic beverage, in the passenger area of any motor vehicle located on a public highway, or the right-of-way of a public highway in the state. Like the requirements for repeat offender penalties, the federal funding laws restrict a portion of the federal-aid highway construction funds from being used for highway construction activities to use in alcohol-impaired driving counter-measures activities. Legislation has been requested by the executive to amend relevant Montana laws to meet the federal requirements. Figure 6 summarizes the federal funding that would be impacted by this requirement. As with the impacts of repeat offender penalty requirements, Montana is already experiencing the restriction of funds.

Funding Montana's Highways

Legislative Policy Issue

The following discussion identifies a public policy issue the legislature faces as it appropriates funds for the Department of Transportation. The legislature may want to decide: 1) if it wants to minimize or control the use of state funds while using all federal-aid highway construction funds allotted to Montana; or 2) if it wants to maximize the amount of total funds spent on highway construction while using the same allotment of federal-aid highway construction funds.

If the legislature wants to maximize the leverage of state funds, it would spend only enough state funds to receive the most favorable federal participation rate on the amount of federal-aid construction funds allotted to Montana. A decision to achieve this goal would result in a lower level of expenditures on highway construction. However, this decision could benefit the state by strengthening the financial condition of the highways state special revenue account and also provide options to help shore up the financial condition of the general fund.

If the legislature wants to maximize the amount of highway construction using all highway related funding, it would spend the maximum amount of highways state special revenue that the highways state special revenue account (HSRA) cash flow would allow, along with all federal-aid highway construction funds allotted to Montana. This decision would provide the maximum level of highway construction activities, but would put the HSRA in a potentially vulnerable financial condition and would remove the account as a source to help restore the financial condition of the general fund.

Background information on highway funding, prior legislative policies related to highway funding, a financial analysis of the HSRA, and legislative options for making the policy decision follow.

BACKGROUND

Vast Highway Network

Montana has a vast network of highways that plays a major role in Montana's transportation needs. Montana has nearly 70,000 centerline miles of public roads, of which the Department of Transportation (department) has responsibility for nearly 11,000. The remaining roughly 59,000 miles are mostly rural and municipal roads maintained by local governments or private citizens. The department spends roughly \$960 million each biennium to maintain, rebuild, and operate the 11,000 miles of paved roads under its responsibility. Funding to support this effort is roughly 35 percent from state sources and 65 percent from federal sources.

Sources of Revenue

As stated, the department is funded from a combination of state special revenue and federal special revenue. State special revenue can be grouped into two general categories: those that are constitutionally-protected and those that are not. The Constitution of the State of Montana states that revenues from gross vehicle weight fees and excise and license taxes on gasoline, fuel, and other energy sources that are used to propel vehicles on public highways are to be used solely for paying obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; and for enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Constitutionally protected (restricted) revenues comprise roughly 96.6 percent, non-restricted revenues provide 3.1 percent, and a general fund transfer provides the remaining 0.3 percent of total state special revenues. Non-restricted revenues are derived from special use permits and motor fuel penalties and interest payments. All highway construction expenditures from state funds are accounted for in the HSRA, whether they are from restricted or non-restricted revenues. HSRA is used as the match for federal funding of the department.

Federal aid for highway construction is primarily realized from the distribution of revenue derived from the federally-imposed excise tax on motor fuels. Montana has historically received significantly more federal-aid highway construction funds than are collected in federal motor fuels excise taxes from Montana sources.

Reauthorization of Federal-Aid Highway Funding

The department receives federal-aid highway construction funding from the Federal Highway Administration (FHWA). The federal legislation that currently authorizes this funding is the Transportation Equity Act for the 21st Century (TEA-21). Under TEA-21, Montana receives an average of \$260 million per year in federal allotment for highway construction and related activities. TEA-21 is scheduled to expire at the end of federal fiscal 2003 - the end of the first quarter of state fiscal 2004. The department has assumed in its budget submission that when TEA-21 expires, a subsequent reauthorization of federal-aid highway funding legislation would not have any appreciable expenditure level changes for the department from the levels it currently experiences. The department assumes that expenditure impacts of federal-aid funding changes would be delayed into the 2007 biennium by inherent construction program delays, like those resulting from the time it takes for design, rights-of-way acquisition, contract bidding, and construction project staging. However, the department is in the process of reevaluating the short-range highway construction plan and has stated that they plan to submit an updated highway construction budget for deliberation by the legislature. Information on this updated budget submission has not been provided, so only the financial impacts of the submitted budget and the legislative alternatives are present for legislative review in this narrative.

Funding Impacts When TEA-21 was Enacted

President Clinton signed TEA-21 into law on June 9, 1998, after the previous federal-aid highway funding legislation, the Intermodal Surface Transportation and Efficiency Acts (ISTEA), expired. Under TEA-21, Montana received roughly 60 percent more federal funds than it did under ISTEA. Montana's average annual allotment of federal-aid highway construction funds grew under TEA-21 by more than \$80 million to roughly \$260 million. Planning for reauthorization of the federal-aid highway funding poses a great uncertainty in forecasting its impact on the highways state special revenue and the department budget. If Montana's allotment of federal-aid highway construction funds grows as it did when TEA-21 was enacted, Montana will have a higher state match to provide.

*Federal-Aid Highway Construction Program*Sliding Scale Match

Montana receives federal highway construction funds based on a sliding scale match formula that includes factors for the amount of federal land in the state and the amount of financial contribution the state makes to maintain the federal-aid highway system with state dollars. Montana's current match ratio is 87 percent federal to 13 percent state for reimbursable federal-aid projects. In order to maintain this favorable match, Montana must provide maintenance of effort by fully funding a certain level of construction activity with state funds. The department estimates that roughly \$10 million of state-funded highway construction is needed annually to maintain the current match ratio. The FHWA allows the use of a three-year moving average when evaluating if the minimum maintenance of effort has been achieved. Because of recent sporadic levels of state funded construction expenditures, this moving average has come into play.

In order to utilize all of the federal funds allotted to the state, state funds must be available to provide: 1) planning functions required in TEA-21; 2) maintenance of the federal-aid highway system to FHWA standards; 3) adequate management and oversight of federal-aid construction projects; 4) a minimum construction program supported by 100 percent state funds (\$10 million annually); 5) matching funds for federal-aid construction funds; and 6) adequate working capital to pay operating expenses with 100 percent state funds until federal reimbursement is provided. These factors all contribute to the need to maintain a certain working capital level to support cash flow obligations of the department. A working capital balance of \$10 million has been commonly stated as the absolute minimum needed to support the cash flow obligations of the department. This would provide for roughly 18 days of expenditures and may be low considering the monthly cycle for the major revenue sources.

Figure 7 illustrates a comparison of different federal-aid match rates on expenditures of state special revenue. The constant for this comparison is the state allotment of federal-aid highway construction funds. Figure 7 illustrates how much state funds would be needed for two different federal participation rates:

- At an 87 percent federal participation rate, \$52.0 million state funds (including spending \$10.0 million state funds as a state maintenance of effort to secure the 87 percent rate) would be needed to match \$281.3 million of federal funds
- At an 80 percent federal participation rate, \$70.3 million state funds would be needed to match the same \$281.3 million of federal funds

By spending \$10.0 million state funds on 100 percent state-funded construction to improve the federal participation rate from 80.0 percent to 87.0 percent, Montana saves \$18.3 million state funds for \$281.3 million federal aid. Figure 7 also illustrates that by spending \$10.0 million additional state funds on 100 percent state-funded construction, the effective federal participation rate, after considering all state funds spent, is reduced from 84.4 percent to 81.9 percent and causes the state to spend more state funds to get the same amount of federal aid. Montana has for various reasons spent more than the minimum state funds needed to get a favorable match on federal aid.¹

¹ From fiscal 1983 to fiscal 1995, 100 percent state-funded construction activities were statutorily directed under a program titled the reconstruction trust program (RTP). The RTP was funded from deposits in the reconstruction trust fund account (RTF), which at one time included deposits from coal severance tax collections. The primary factor for establishing the RTP was because federal-aid for highways was inadequate to safely maintain Montana's highways. The legislature terminated the RTP on July 1, 1995. Since the RTP was terminated, the department has continued to conduct state-funded construction activities at levels often greater than the minimum needed to maintain the favorable federal match.

In summary, Figure 7 shows that it is in the state's best interest to buy down the state match rate by funding a state-funded construction program at least at the minimum level needed to maintain a favorable federal participation rate. However, once the minimum has been satisfied, each additional state dollar spent would lower the effective federal participation rate, but would increase the total size of the state highway construction program. When examining the Executive Budget, there is one additional factor to consider: indirect costs.

Indirect Cost Recovery

In early fiscal 2002, the department negotiated with FHWA for a cost recovery rate that would allow the department to receive federal reimbursement for indirect costs it incurred in support of federal-aid highway projects. While the department was developing and negotiating an indirect cost recovery plan with FHWA, it negotiated with FHWA for indirect cost reimbursements of \$5 million per year beginning in fiscal 2002. Nearly simultaneous to the department receiving FHWA approval of an indirect cost recovery plan that sets the maximum rate at 13.44 percent of federal direct billings, the August 2002 Special Session of the legislature passed HB 21. HB 21 requires full recovery of indirect costs from federal and private grants. At the maximum indirect cost recovery rate of 13.44 percent, the department would recover roughly \$37.8 million per year, at the fiscal 2002 actual federal fund expenditure level.

Indirect cost recovery allows a federally-funded highway construction program to recover full costs associated with delivering the federal-aid highway construction program, whether they are directly traceable to a federal-aid project or incurred as an indirect cost of the project. The department can now receive federal reimbursements for administrative costs that were previously not recoverable and which were funded entirely with state special revenue funds. The catch is that the amount of federal money Montana receives is not increased by the amount of the indirect costs that are recovered. Instead, the federal funds received from indirect cost reimbursements are deducted from the total allotment of federal-aid highway construction funds for Montana. As a result, the amount of federal funds available for costs to directly provide highway construction projects is reduced by the amount of the indirect costs that are recovered.

Figure 8 illustrates the impacts on the federal-aid highway construction program from maximizing the recovery of indirect costs. The department has submitted a budget that assumes all state funds recovered through federal reimbursements of indirect costs would be used to fund costs that were previously funded with: 1) the higher state match for federal funds prior to deducting federal reimbursements for indirect costs; and 2) costs that were funded with federal allotment used to get federal reimbursement of indirect costs. The figure illustrates two extreme cases: 1) the plan proposed by the department to use indirect cost reimbursements to fund administration and use state funds in the same amount to fund construction activity that would have taken place if the indirect costs were not deducted from the federal-aid allotment; and 2) the impacts if all federal-aid highway construction funds allotted to Montana are spent, but the indirect cost reimbursements are not spent to offset the reduced highway construction activity due to federal funding of indirect costs.

For the purpose of the illustration, the federal-aid allotment was held constant. Figure 8 shows that if state funds are not used to offset reduced highway construction funding from funding indirect costs with federal funds, including not spending the state match differential:

- All of the \$281.3 million allotment (based on fiscal 2002 actual level) would be spent
- State special revenue expenditures would be reduced by \$43.4 million per year
- Funding for direct highway construction activities would be reduced by \$43.4 million per year
- The effective state match rate would be 14.2 percent

Figure 7
Federal-Aid Match Rate Comparison
Highway Construction Program
(in \$ Millions)

	State-Funded Construction Program		
	\$10 million (minimum)	\$0	\$20 million
Federal participation rate	87.0%	80.0%	87.0%
Federal-aid construction program			
State funds	\$ 42.0	\$ 70.3	\$ 42.0
Federal funds (<i>constant for comparison</i>)	281.3	281.3	281.3
Federal-aid program	\$ 323.3	\$ 351.6	\$ 323.3
State funded construction program	10.0	-	20.0
Total state funds spent	52.0	70.3	62.0
Total construction program	\$ 333.3	\$ 351.6	\$ 343.3
Effective federal participation rate	84.4%	80.0%	81.9%
Savings of state funds from favorable match at the minimum maintenance of effort	\$ 18.3		

If state funds are used to offset reduced highway construction funding from funding indirect costs with federal funds:

- o All of the \$281.3 million allotment (based on fiscal 2002 actual level) would be spent
- o There would be no reduction of direct highway construction activities compared to fiscal 2002 as a direct result of the decision
- o The effective state match rate would be 24.2 percent (Montana would pay more to get the same level of federal funds)

The plan proposed by the department to expend indirect cost reimbursements to offset reduced federal-aid funding for direct costs is a policy decision of the legislature. The legislature can impact this decision through appropriations to the department or through substantive law. The department plan to spend indirect costs recovered with federal funding appears to contradict the intentions of HB 21 enacted in the August 2002 Special Session to maximize the use of federal funds for all costs associated with delivering the federal-aid program, thereby reducing the expenditure of state funds in the process. Although the primary intent may have been to reduce general fund expenditures, the same savings can be realized for other state funds, such as the HSRA.

The following additional background information may be helpful in this deliberation:

- o The state has historically received increased allotments of federal-aid funding when federal highway funding legislation is reauthorized. Increased federal funds could be used to offset reductions of state funds without reducing the total highway construction program
- o Funding indirect costs with federal funds will reduce federal funds available for direct federal-aid highway construction projects
- o Revenues from indirect cost recovery frees state special revenue previously used to fund indirect costs for other purposes
- o For fiscal 2002, revenues from maximum indirect cost recovery equals \$0.08 of the \$0.27 per gallon tax on gasoline
- o Higher allotments of federal-aid under a successor to TEA-21 would require increased expenditure of state special revenue as a state match on federal funds
- o HSRA structural stability could be adversely impacted by higher levels of federal-aid and higher levels of state-funded construction (see a later discussion of HSRA financial condition)
- o A declining HSRA balance could lead to the need for increased revenues through a fuel tax or fee increase in the future

Figure 8
Impacts of Indirect Cost Recovery
Based on Fiscal 2002 Actual Allotment
(in \$ Millions)

	Executive Proposal	Do Not Apply Indirect Cost Reimbursements and Reduced Match to Offset Impacts
Federal-aid allotment to Montana (<i>for this comparison, federal-aid is held constant</i>)	\$ 281.3	\$ 281.3
How the federal funds are spent		
Federal-aid highway construction activities - direct costs		
Direct costs	281.3	243.5
Indirect costs	-	37.8
Total federal-aid highway construction funds	<u>\$ 281.3</u>	<u>\$ 281.3</u>
State funds spent to match or support highway construction activities		
State match for federal funds (at 87.0 percent federal participation rate on direct costs)	42.0	36.4
Indirect costs	37.8	-
State-funded construction program at minimum for favorable match	10.0	10.0
Total state fund spent to deliver the federal-aid highway construction program	<u>\$ 89.8</u>	<u>\$ 46.4</u>
Total highway construction program		
Direct construction costs and state match	333.3	289.9
Indirect costs	37.8	37.8
Total highway construction program	<u>\$ 371.1</u>	<u>\$ 327.7</u>
Summary		
Effective state match rate	24.2%	14.2%
Change in expenditures on direct construction activities		(43.4)
Change in expenditures of state funds		
Federal reimbursement for indirect costs		(37.8)
Savings of state match with indirect costs reimbursed at 100 percent		(5.6)
Total change in expenditures of state funds		<u>\$ (43.4)</u>

Figure 9
Impacts on Total Highway Construction Expenditures
From Using Indirect Costs and State Match Savings for Other Purposes
(in \$ Millions)

Case Reference	Average Federal-Aid Level	Federal-Aid Construction Program ¹	State Match	State-Funded Construction Program	Indirect Cost Plan	Total Construction Program	Difference from Case 1
Fiscal 2002 Total Highway Construction Program Without Impacts of an Indirect Cost Plan							
Case 1	\$ 281.3	\$ 281.3	\$ 42.0	\$ 10.0	\$ -	\$ 333.3	Reference
Fiscal 2002 Total Highway Construction Program With Impacts of an Indirect Cost Plan							
Case 2	281.3	243.5	36.4	10.0	37.8	289.9	43.5
Case 3	281.3	243.5	36.4	47.8	37.8	327.7	5.6
Case 4	281.3	243.5	36.4	53.5	37.8	333.3	-
Case 5	325.0	281.3	42.0	10.0	43.7	333.4	(0.0)

Funding for Construction		
	Federal Funds	Effective State Match
		Rate
Case 1	281.3	52.0
Case 2	243.5	46.4
Case 3	243.5	84.2
Case 4	243.5	89.8
Case 5	281.3	52.0

¹ Shows the impact of reducing indirect costs from the program

Figure 9 illustrates the impacts on highway construction expenditures between using the indirect costs as proposed by the department and using the indirect costs and the reduced state match requirement for purposes other than highway construction. Case 1, the reference for comparison, shows that for \$281.3 million federal-aid and \$10.0 million stated-funded construction, total expenditures of \$333.3 million would result after the state match was met. Case 2 shows that total expenditures on highway construction would be reduced by \$43.5 million at the same levels of federal aid and state-funded construction, by using the indirect costs and the reduced state match for

purposes other than highway construction. Cases 3 and 4 show the impact if the indirect cost recovery is spent on highway construction, but Case 3 assumes the reduced state match would be used for other purposes. Finally, Case 5 illustrates that both indirect cost recovery and the reduced state match could be used for other purposes without reducing the total amount of funds spent on highway construction, if the federal-aid level increases to \$325.0 million as assumed in the department budget. The bottom section of Figure 9 illustrates how each case would be funded and the effective state match for each case.

Policy Decision

The legislature faces a policy issue as it appropriates funds for the department. Restated, the legislature may want to decide: 1) if it wants to minimize or control the use of state funds while using all federal-aid highway construction funds allotted to Montana; or 2) if it wants to maximize the amount of total funds spent on highway construction while using the same allotment of federal-aid highway construction funds. These competing policy directions will have different implications on the funding profile for the 2005 biennium budget of the department. However, legislative actions would serve to clarify how it wants the department to fund highway construction activities given the requirements to maximize recovery of indirect costs associated with federal grants. Figure 10 shows the highlights of outcomes for the two policy decision options with regard to appropriations for the department.

Figure 10 Highlights of Legislative Policy Options for Funding Highway Construction (Assumes all Federal-Aid Highway Construction Funds are Used)	
<u>Minimize Use of State Funds</u>	<u>Maximize Total Construction Expenditures</u>
- o Reduced construction activity - o Stabilizes HSRA fund balance - o Makes tax reduction possible - o Allows use of HSRA on highways or other related activities allowed by the constitution - o Frees up general fund for reallocation elsewhere - o Federal funds are utilized at the lowest state match rate	- o Highway construction is maximized - o Requires a high effective state match rate to utilize federal funds - o Endangers HSRA fund balance

Approaches to Implement a Legislative Policy Decision

Maximize Total Funds Spend on Construction

If the legislature wants to maximize expenditures on highway construction, it would approve the executive proposal. The legislature would thereby use appropriations to establish spending policies for the department and allow the department flexibility to determine how to fund department activities within the available appropriations, including the use of indirect cost recovery and state match savings due to indirect cost recovery to fund construction costs impacted by federal reimbursements on indirect costs.

Minimize or Control the Use of State Funds on Highway Construction

Adjust Funding and Control Expenditures of State Funds Through Appropriations

If the legislature wants to minimize or control the amount of state funds the department spends to use all federal-aid funding allotted to Montana, it would adjust the funding of the executive proposal to reflect the level of state funds the department could spend on highway construction and fund other functions with HSRA or maintain the fund balance. The legislature would also minimize the flexibility it provided the executive to effect funding changes, such as not approve proposed language or restrict appropriations.

Control Expenditures of State Funds Through Substantive Law

The legislature could also limit or designate how the department uses state funds to finance highway construction activities through substantive law, such as:

- o Specify legislative policies for matching federal-aid highway construction fund
- o Specify legislative policies for state-funded highway construction

Other Allowable Uses of Highways State Special Revenue

If the legislature wanted to minimize or control the amount of state funds the department spends to use all federal-aid funding allotted to Montana, it could tap the improved HSRA balance to restore stability to the fund and to fund other uses or reduce the level of fees or taxes that provide revenues to the account. The Constitution of the State of Montana is restrictive in the allowable uses of revenues derived from motor fuel taxes and highway user fees. These restrictions limit the use of these revenues solely for expenditures for:

- o Construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges
- o Enforcement of highway safety
- o Driver education
- o Tourist promotion
- o Administrative collection costs
- o Other uses approved by a two-thirds vote of each house of the legislature

Other potential uses that appear to meet the constitutional requirements include:

- o Fund tourist promotion or other allowable uses that are currently funded with other sources
- o Eliminate the general fund transfer to the HSRA related the HB 124 (2001 legislature) revenue losses to the HSRA
- o Delay future potential fuel tax increases or reduce fuel taxes

For example, funding tourist promotion with the HSRA would free up roughly \$10 million each year that could be deposited into the general fund or used for other funding purposes. Likewise, eliminating the general fund transfer to the HSRA would improve the general fund by \$3.3 million per year.

Because the legislature must make decisions with regard to appropriations of the department with an understanding of their long-term financial implications on the HSRA, the following presents a working capital analyses for: 1) the department budget submission; and 2) an alternative scenario that shows funding available for legislative determination that would maintain a balance of \$20 million each year but without using indirect cost reimbursements and the state match savings to offset impacts in the department from the indirect cost recovery plan. These two scenarios are illustrated in Figure 11.

Working Capital Analysis

Assumptions Used in the Working Capital Projections

For determining the account balance the following assumptions were used:

- Actual expenditures for fiscal 2002 were used
- Non-reverted appropriations valid for the remainder of the 2003 biennium were used to forecast expenditures for fiscal 2003
- Agency budget requests were used to estimate expenditures for the 2005 biennium
- Future expenditure levels are shown at the 2005 biennium budget levels with 3 percent annual inflation adjustments
- Revenues for gasoline tax, diesel tax, and gross vehicle weight (GVW) fees are actual levels for fiscal 2002 and revenue estimates from the Revenue and Transportation Committee for fiscal 2003 and the 2005 biennium
- Future revenues are 2005 biennium estimates with inflation adjustments based on Revenue and Transportation Committee growth rates for the 2005 biennium

Working Capital Analysis Results

Figure 11 illustrates a complete working capital analysis of the HSRA based on the department budget submission. In the department budget submission, the revenues and expenditures from the HSRA are not balanced and the account balance would be depleted in fiscal 2007. With the executive proposal, the account is not structurally stable with ongoing expenditures exceeding ongoing revenues by nearly \$21 million in the 2005 biennium. Without actions to restore a structural balance, the account balance will be depleted in four years.

However, by not using the indirect cost reimbursements or the state match savings to offset construction reductions that result from using a portion of the federal-aid allotment for indirect cost reimbursements, a working capital balance of \$20.0 million could be maintained each year and the legislature would have funds available for use at its discretion. Figure 12 illustrates a comparison between the department budget request and this proposed alternate use of state funds related to indirect cost reimbursements.

As illustrated in Figure 12, if indirect costs were not spent as proposed in the department budget request, the legislature would free up funds that could be used for other purposes such as:

- Maintain structural balance in the account
- Offset all or a portion of the construction reductions that would result from the indirect cost recovery plan
- Reduce or eliminate the general fund transfer to the department
- Fund other allowable uses
- Provide fuel tax or GVW fee reductions

Figure 11

Working Capital Analysis - Highways State Special Revenue Account

Fiscal Years 2002 - 2007

(in \$ Millions)

Based on a \$325 million federal-aid program when TEA-21 is reauthorized

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
	Actual	Approp.	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Beginning Working Capital Balance	\$ 41.1	\$ 51.4	\$ 31.5	\$ 19.8	\$ 10.2	\$ 0.9	\$ (12.8)	\$ (30.2)
Revenues								
Gasoline tax	125.9	126.6	127.3	128.0	128.7	129.4	130.1	130.8
Diesel tax	56.1	57.0	57.8	58.7	59.5	60.4	61.3	62.1
Gross vehicle weight fees (GVW)	26.2	26.0	25.7	25.3	25.0	25.0	25.0	25.0
General fund transfer		0.1	3.2	3.3	3.3	3.4	3.4	3.5
Other revenues	5.8	5.4	4.8	4.5	4.2	3.9	3.9	3.9
Revenue deductions								
Alcohol production incentives (15-70-522, MCA)			(1.8)	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Ethanol consumption incentives (15-70-204/321, MCA)	-	-	(0.6)	(0.6)	(0.6)	(0.6)	-	-
Total Revenues	\$ 214.0	\$ 215.0	\$ 216.5	\$ 213.2	\$ 214.2	\$ 215.5	\$ 217.7	\$ 219.4
Expenditures								
Department of Transportation								
General Operations Program	16.2	12.5	14.6	15.0	15.4	15.9	16.4	16.9
Construction Program								
Federal-aid program	55.9	67.0	72.6	62.4	64.3	66.2	68.2	70.2
State-funded construction (minimum for favorable match rate)	1.3	18.5	10.3	10.0	10.0	10.0	10.0	10.0
Department of Transportation request over minimum			2.8	7.4	2.5	2.5	2.5	2.5
Maintenance Program	73.5	77.0	81.3	81.6	84.1	86.6	89.2	91.9
Motor Carriers Services	4.8	5.0	5.2	5.3	5.5	5.6	5.8	6.0
Transportation Planning	1.4	3.1	2.6	2.1	2.2	2.3	2.3	2.4
Less abated expenditures for indirect cost plan	(5.0)	(31.5)	(37.8)	(37.8)	(43.7)	(43.7)	(43.7)	(43.7)
State-funded construction tied to indirect cost reimbursement		31.5	37.8	37.8	43.7	43.7	43.7	43.7
Debt service (bond principle and interest)	13.9	3.8	-	-	-	-	-	-
Total Department of Transportation	\$ 161.9	\$ 186.9	\$ 189.4	\$ 183.8	\$ 183.9	\$ 189.1	\$ 194.4	\$ 199.8
Statutory Appropriations	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
Department of Justice	17.6	19.4	19.2	19.3	19.9	20.5	21.1	21.7
Motor Vehicle Division (special session 2002)		6.6						
Long-Range Building Program								
Maintenance and repair of MDT buildings	3.1	3.4	2.0	2.0	2.0	2.0	2.0	2.0
Department of Fish, Wildlife & Parks	0.7	1.8	0.8	0.8	0.8	0.8	0.8	0.8
Total Long-Range Building Program	\$ 3.8	\$ 5.1	\$ 2.8	\$ 2.8	\$ 2.8	\$ 2.8	\$ 2.8	\$ 2.8
Noxious Weeds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Expenditures	\$ 200.2	\$ 234.9	\$ 228.2	\$ 222.8	\$ 223.5	\$ 229.2	\$ 235.1	\$ 241.2
Revenues less expenditures	13.8	(19.9)	(11.7)	(9.6)	(9.3)	(13.7)	(17.4)	(21.9)
Adjustments	(3.5)							
Ending Working Capital Balance	\$ 51.4	\$ 31.5	\$ 19.8	\$ 10.2	\$ 0.9	\$ (12.8)	\$ (30.2)	\$ (52.1)

Figure 12

Highways State Special Revenue Account

Year End Working Capital Balance

(in \$ Millions)

Reference	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Department budget submission							
Working capital balance at the end of each fiscal year	\$ 31.5	\$ 19.8	\$ 10.2	\$ 0.9	\$ (12.8)	\$ (30.2)	\$ (52.1)
Effective size of state-funded construction program		56.5	60.8	56.1	56.1	56.1	56.1
Do not use indirect cost reimbursements or state match savings to offset impacts							
Working capital balance at the end of each fiscal year		31.5	20.0	20.0	20.0	20.0	20.0
Effective size of state-funded construction program			10.3	10.0	10.0	10.0	10.0
Funding available for legislative discretion			45.9	41.2	36.8	32.4	28.7

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget				
<u>Agency Program</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
General Operations Program	\$ 29,580,695	\$ 18,844,475	\$ 48,425,170	4.3%
Construction Program	253,078,125	603,654,349	856,732,474	75.9%
Maintenance Program	162,963,374	20,077,304	183,040,678	16.2%
Motor Carrier Services Div.	10,540,747	-	10,540,747	0.9%
Aeronautics Program	2,850,089	3,600,000	6,450,089	0.6%
Transportation Planning Divisi	5,513,821	18,142,725	23,656,546	2.1%
Grand Total	\$ 464,526,851	\$ 664,318,853	\$ 1,128,845,704	100.0%

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	2,175.71	(12.03)	2,163.68	2,124.53	(12.03)	2,112.50	2,170.16	2,112.50
Personal Services	106,136,008	(529,145)	105,606,863	104,770,565	(533,568)	104,236,997	192,818,907	209,843,860
Operating Expenses	427,730,249	8,673,021	436,403,270	431,863,460	3,820,000	435,683,460	744,430,266	872,086,730
Equipment	1,236,000	0	1,236,000	1,236,000	0	1,236,000	2,843,364	2,472,000
Capital Outlay	12,321,905	0	12,321,905	12,321,905	0	12,321,905	24,639,843	24,643,810
Grants	10,390,325	0	10,390,325	9,357,325	0	9,357,325	31,268,606	19,747,650
Transfers	25,452	0	25,452	25,452	0	25,452	50,902	50,904
Debt Service	375	0	375	375	0	375	12,890	750
Total Costs	\$557,840,314	\$8,143,876	\$565,984,190	\$559,575,082	\$3,286,432	\$562,861,514	\$996,064,778	\$1,128,845,704
General Fund	0	0	0	0	0	0	0	0
State/Other Special	221,623,914	478,874	222,102,788	243,180,463	(756,400)	242,424,063	343,542,198	464,526,851
Federal Special	336,216,400	7,665,002	343,881,402	316,394,619	4,042,832	320,437,451	652,522,580	664,318,853
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$557,840,314	\$8,143,876	\$565,984,190	\$559,575,082	\$3,286,432	\$562,861,514	\$996,064,778	\$1,128,845,704

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 102 - Integrated Financial Systems										
01	0.00	0	0	4,000,000	4,000,000	0.00	0	0	4,000,000	4,000,000
DP 107 - FTE Reduction										
01	(2.00)	0	(77,334)	0	(77,334)	(2.00)	0	(77,863)	0	(77,863)
DP 108 - Reduction in Contracted Audits										
01	0.00	0	(180,000)	0	(180,000)	0.00	0	(180,000)	0	(180,000)
DP 208 - Local Government Certification										
02	1.00	0	23,114	45,002	68,116	1.00	0	22,065	42,832	64,897
DP 211 - Convert Metric measure to English measure										
02	0.00	0	1,000,000	0	1,000,000	0.00	0	0	0	0
DP 315 - FTE Reduction										
03	(11.03)	0	(516,906)	0	(516,906)	(11.03)	0	(520,602)	0	(520,602)
DP 4001 - Runway Rehab West Yellowstone Airport - Biennial										
40	0.00	0	0	1,800,000	1,800,000	0.00	0	0	0	0
DP 4002 - Runway Rehab Lincoln Airport - Biennial Approp										
40	0.00	0	180,000	1,620,000	1,800,000	0.00	0	0	0	0
DP 5001 - Multimodal Transportation Corridor Tech Assist										
50	0.00	0	50,000	200,000	250,000	0.00	0	0	0	0
Total	(12.03)	\$0	\$478,874	\$7,665,002	\$8,143,876	(12.03)	\$0	(\$756,400)	\$4,042,832	\$3,286,432

Language Recommendations

The executive proposes the following language for appropriations of the department.

"The department may adjust appropriations in the general operations, construction, maintenance, and transportation planning programs between state special revenue and federal special revenue fund types if the total state special revenue authority for these programs is not increased by more than 10% of the total appropriations established by the legislature for each program. All transfers between fund types must be fully explained and justified by budget documents submitted to the office of budget and program planning, and all fund transfers of more than \$1 million in any 30-day period must be communicated to the legislative finance committee in a written report."

LFD
ISSUE

Language Puts Highways State Special Revenue at Risk

The legislature may wish to consider the following when considering approval of this language that authorizes the executive to switch funding between state and federal appropriations. On the surface it appears as though the language says that state special revenue cannot increase by more than 10 percent for each program. However, since the language

states that state special revenue cannot increase by more than 10 percent of the total appropriations for the program the actual allowable increases for state special revenue are in the range from 11 to 43 percent depending on the program. Figure 13 shows how much the state special revenue could increase under the authority of this language. For the Construction Program only, the language would provide authority for the executive to increase state special revenue by \$85.7 million for the 2005 biennium.

The legislature may wish to ask the department to identify what factors are outside the control of the department that would justify a need for this type of funding authority and especially the authority to move funding in the levels shown in Figure 13 between state and federal funding.

Figure 13

Potential Impacts on State Special Revenue

Proposed Language to Allow Funding Switches

2005 Biennium Budget Amounts

(in \$ Millions)

Program	State Special Revenue	Federal Special Revenue	Total Funds	10 Percent	State Special Revenue Change
General Operations (01)	\$ 29.6	\$ 18.8	\$ 48.4	\$ 4.8	16.4%
Construction (02)	253.1	603.7	856.7	85.7	33.9%
Maintenance (03)	163.0	20.1	183.0	18.3	11.2%
Transportation Planning (50)	5.5	18.1	23.7	2.4	42.9%

"All federal special revenue appropriations in the department are biennial."

"All appropriations in the general operations, construction, maintenance, and transportation planning programs are biennial."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	161.77	1.00	(2.00)	160.77	1.00	(2.00)	160.77	160.77
Personal Services	6,951,701	1,093,427	(77,334)	7,967,794	1,100,393	(77,863)	7,974,231	15,942,025
Operating Expenses	10,198,521	1,632,295	3,820,000	15,650,816	1,992,322	3,820,000	16,010,843	31,661,659
Equipment	226,118	109,250	0	335,368	109,250	0	335,368	670,736
Grants	75,000	0	0	75,000	0	0	75,000	150,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	375	0	0	375	0	0	375	750
Total Costs	\$17,451,715	\$2,834,972	\$3,742,666	\$24,029,353	\$3,201,965	\$3,742,137	\$24,395,817	\$48,425,170
State/Other Special	11,156,774	3,707,715	(257,334)	14,607,155	4,074,629	(257,863)	14,973,540	29,580,695
Federal Special	6,294,941	(872,743)	4,000,000	9,422,198	(872,664)	4,000,000	9,422,277	18,844,475
Total Funds	\$17,451,715	\$2,834,972	\$3,742,666	\$24,029,353	\$3,201,965	\$3,742,137	\$24,395,817	\$48,425,170

Program Description

The General Operations Program administers motor fuel taxes and provides administrative support services for the department, including general administration and management; accounting and budgeting; public affairs; information technology services; human resources activities; compliance review; and goods and services procurement.

Program Narrative

Department of Transportation General Operations Program Major Budget Highlights	
o	Total fund budget increases by \$11.6 million or 31.5 percent for the biennium
o	State special revenue funding increases by \$5.4 million or 22.4 percent for the biennium
o	Federal special revenue funding increases by \$6.2 million or 48.8 percent for the biennium
o	An information technology project to integrate financial management systems adds \$8.0 million federal funds for the biennium
o	Staffing is reduced by 1.00 FTE

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table General Operations Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	\$ 11,156,774	63.9%	\$14,607,155	60.8%	\$14,973,540	61.4%
03407 Highway Trust - Sp Rev	6,294,941	36.1%	9,422,198	39.2%	9,422,277	38.6%
Grand Total	<u>\$ 17,451,715</u>	<u>100.0%</u>	<u>\$24,029,353</u>	<u>100.0%</u>	<u>\$24,395,817</u>	<u>100.0%</u>

The General Operations Program is funded from the highways state special revenue fund and federal special revenue. The highways state special revenue fund receives revenue primarily from motor fuel taxes and gross vehicle weight

permit fees. Federal funding is available for assistance for disadvantaged businesses, training, fuel tax evasion prevention efforts, and administrative expenses associated with the federal-aid highway program. Beginning in fiscal 2002, the program began receiving federal reimbursements for indirect costs associated with the federal-aid highway program via a Federal Highways Administration (FHWA) approved indirect cost plan. As such, the base was funded with roughly 64 percent state funds and 36 percent federal funds. This is a change from previous biennia during which state special revenue funded roughly 96 percent of the program.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				1,314,573					1,316,718
Vacancy Savings				(330,649)					(330,742)
Inflation/Deflation				6,564					7,396
Fixed Costs				1,815,524					2,174,432
Total Statewide Present Law Adjustments				\$2,806,012					\$3,167,804
DP 101 - Subgrant Monitoring / Local Gov't Certification									
1.00	0	34,064	0	34,064	1.00	0	33,978	0	33,978
DP 103 - IT Equipment Lifecycle Replacements									
0.00	0	109,250	0	109,250	0.00	0	109,250	0	109,250
DP 104 - Overtime and Differential Pay									
0.00	0	74,828	611	75,439	0.00	0	79,795	644	80,439
DP 105 - IFTA Dues and Legal Fees									
0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 109 - Equipment Rental									
0.00	0	2,076	0	2,076	0.00	0	2,363	0	2,363
DP 110 - Alternative Pay Plan Conversion									
0.00	0	(215,522)	(1,347)	(216,869)	0.00	0	(215,522)	(1,347)	(216,869)
Total Other Present Law Adjustments									
1.00	\$0	\$29,696	(\$736)	\$28,960	1.00	\$0	\$34,864	(\$703)	\$34,161
Grand Total All Present Law Adjustments				\$2,834,972					\$3,201,965

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 101 - Subgrant Monitoring / Local Gov't Certification - An increase of \$68,042 state special revenue for the biennium is requested to provide funding for 1.00 FTE in each year to monitor that federal funds granted by the department are administered and spent in accordance with federal regulations.

LFD COMMENT

Local Government Certification Process

The department is implementing a process to certify local governments to develop federal-aid highway projects. Currently, the department develops all projects with input from local governments. Local governments have been pressing the department for more control over highway projects occurring within their jurisdictions. Once certified, local governments would have direct control over project design and delivery and contract administration. The position added through this funding request would monitor the federal funds granted to local governments for compliance with federal regulations.

This local government certification initiative would not necessarily reduce department costs in the future, but would shift categories of expenditures. For example, when agency personnel administer highway projects, personal services and contractor payments are an expense for the department. If a local government administers the project, the department would have grant expenses to the local government for their project costs, such as personal services and payments to contractors.

DP 103 - IT Equipment Lifecycle Replacements - An increase of \$218,500 state special revenue for the biennium is requested to establish a four-year replacement schedule for computer network servers and data storage equipment.

DP 104 - Overtime and Differential Pay - Increases of \$154,623 state special revenue and \$1,255 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

**LFD
COMMENT**
Historical Expenditures

The program has expended an average \$81,460 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended \$65,607. With benefits added, the decision package amounts approximate base plus benefits.

DP 105 - IFTA Dues and Legal Fees - An increase of \$50,000 state special revenue for the biennium is requested to fund \$10,000 in annual dues payments for the International Fuel Tax Agreement (IFTA) and \$15,000 annual funding for the fuel tax dispute resolution process to cover costs that occur when disputes go beyond the internal review phase. Fiscal 2002 IFTA dues are not in the base because they were prepaid in fiscal 2001.

DP 109 - Equipment Rental - An increase of \$4,439 state special revenue for the biennium is requested to fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 110 - Alternative Pay Plan Conversion - Reductions of \$431,044 state special revenue and \$2,694 federal special revenue are recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 102 - Integrated Financial Systems										
01	0.00	0	0	4,000,000	4,000,000	0.00	0	0	4,000,000	4,000,000
DP 107 - FTE Reduction										
01	(2.00)	0	(77,334)	0	(77,334)	(2.00)	0	(77,863)	0	(77,863)
DP 108 - Reduction in Contracted Audits										
01	0.00	0	(180,000)	0	(180,000)	0.00	0	(180,000)	0	(180,000)
Total	(2.00)	\$0	(\$257,334)	\$4,000,000	\$3,742,666	(2.00)	\$0	(\$257,863)	\$4,000,000	\$3,742,137

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 102 - Integrated Financial Systems - An increase of \$8.0 million federal special revenue for the biennium is requested to fund an integrated financial management system and common data warehouse. This system would eliminate redundant systems for administering federal-aid highway projects. Current systems often do not interface with each other and often result in entering duplicate data.

DP 107 - FTE Reduction - A reduction of \$155,197 state special revenue for the biennium is recommended to eliminate 2.00 FTE positions in the program. The program plans to absorb the duties associated with the eliminated positions with remaining staff.

DP 108 - Reduction in Contracted Audits - A reduction of \$360,000 state special revenue for the biennium is recommended to reduce the number of audits that are provided by contracted services. Existing agency staff would perform some of the audits currently being performed by contracted services and audits in other existing audit areas, such as special projects, special fuel users, construction contracts, and internal audits would be a reduced.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	1,045.09	0.55	1.00	1,046.64	(50.63)	1.00	995.46	995.46
Personal Services	46,102,640	6,681,696	65,095	52,849,431	5,220,784	64,897	51,388,321	104,237,752
Operating Expenses	263,671,706	94,184,216	1,003,021	358,858,943	98,216,647	0	361,888,353	720,747,296
Equipment	800,192	0	0	800,192	0	0	800,192	1,600,384
Capital Outlay	10,112,163	2,141,375	0	12,253,538	2,141,375	0	12,253,538	24,507,076
Grants	2,819,983	0	0	2,819,983	0	0	2,819,983	5,639,966
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$323,506,684	\$103,007,287	\$1,068,116	\$427,582,087	\$105,578,806	\$64,897	\$429,150,387	\$856,732,474
State/Other Special	57,229,272	57,667,559	1,023,114	115,919,945	79,906,843	22,065	137,158,180	253,078,125
Federal Special	266,277,412	45,339,728	45,002	311,662,142	25,671,963	42,832	291,992,207	603,654,349
Total Funds	\$323,506,684	\$103,007,287	\$1,068,116	\$427,582,087	\$105,578,806	\$64,897	\$429,150,387	\$856,732,474

Program Description

The Construction Program is responsible for construction project planning and development from the time a project is included in the long-range work plan through actual construction. Program responsibilities include such tasks as project design, accessing environmental documents and permits, making right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is the documentation, inspection, and testing of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work is approved. The program also administers Montana's highway traffic safety functions.

Program Narrative

Department of Transportation Construction Program Major Budget Highlights	
○ Total fund budget increases by \$104.2 million or 13.8 percent for the biennium ○ State special revenue funding increases by \$18.3 million or 12.4 percent for the biennium, excluding increases for Highway 93 bond proceeds ○ Bond proceeds for Highway 93 adds \$87.6 million state special revenue for the biennium to accelerate the Highway 93 project ○ Federal special revenue funding is reduced by \$1.8 million or 0.2 percent for the biennium ○ Staffing is increased by 1.55 FTE in fiscal 2004 and reduced by 49.63 FTE in fiscal 2005 ○ \$1.0 million of state special revenue is spent to convert engineering documentation and equipment back to the English system of measure from the Metric system of measure ○ Highway striping contract administration is moved to the Maintenance Program	
Major LFD Issues	
○ One-time cost to convert back to the English system of measure	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Construction Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	\$ 57,229,272	17.7%	\$ 85,687,945	20.0%	\$ 79,778,180	18.6%
02799 Highway 93 Bond Proceeds	-	-	30,232,000	7.1%	57,380,000	13.4%
03407 Highway Trust - Sp Rev	263,518,313	81.5%	308,841,707	72.2%	289,171,486	67.4%
03828 Traffic Safety	2,759,099	0.9%	2,820,435	0.7%	2,820,721	0.7%
Grand Total	<u>\$ 323,506,684</u>	<u>100.0%</u>	<u>\$ 427,582,087</u>	<u>100.0%</u>	<u>\$ 429,150,387</u>	<u>100.0%</u>

Costs eligible for reimbursement under the federal-aid construction program are funded with highways state special revenue funds and federal special revenue funds apportioned to Montana under the federal transportation funding laws authorized in the Transportation Equity Act for the 21st Century (TEA-21). Construction design, construction, and construction management costs, as well as direct administrative costs for construction activities, are generally eligible for federal reimbursement. The state match requirement is based on a sliding scale match, which is currently 87 percent federal with a 13 percent state match. The program also provides a maintenance-of-effort highway construction program funded entirely with the highways state special revenue. The primary sources of revenue for the highways state special revenue funds are highway-user fees derived from motor fuel taxes and gross vehicle weight fees. Traffic safety functions are generally funded 100 percent with National Highway Traffic Safety Administration grant funds. The exception for traffic safety functions is that a 50 percent state special revenue match is required for roughly 1 percent of the administrative costs.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				3,594,904						3,621,305
Vacancy Savings				(1,987,916)						(1,988,965)
Inflation/Deflation				2,407						8,187
Fixed Costs				4,587						4,987
Total Statewide Present Law Adjustments				\$1,613,982						\$1,645,514
DP 202 - CMS Adjustment	0.55	0	148,410	504,516	652,926	(50.63)	0	(232,823)	(865,919)	(1,098,742)
DP 203 - Landowner Payments	0.00	0	321,206	1,820,169	2,141,375	0.00	0	321,206	1,820,169	2,141,375
DP 204 - Contractor Payments / Federal Aid Construction	0.00	0	8,004,019	49,585,979	57,589,998	0.00	0	4,223,147	26,162,965	30,386,112
DP 206 - US Highway 93	0.00	0	30,232,000	0	30,232,000	0.00	0	57,380,000	0	57,380,000
DP 207 - CMS Aggregate Positions	0.00	0	182,654	379,566	562,220	0.00	0	182,654	379,566	562,220
DP 209 - Contractor Payments / State Construction Program	0.00	0	11,707,531	0	11,707,531	0.00	0	16,034,002	0	16,034,002
DP 210 - Overtime / Differential	0.00	0	1,215,064	3,282,758	4,497,822	0.00	0	1,144,384	3,353,438	4,497,822
DP 212 - Equipment Rental	0.00	0	44,648	108,982	153,630	0.00	0	48,268	126,432	174,700
DP 213 - Roadway Striping	0.00	0	0	(5,000,000)	(5,000,000)	0.00	0	0	(5,000,000)	(5,000,000)
DP 214 - Alternative Pay Plan Conversion	0.00	0	(469,464)	(674,733)	(1,144,197)	0.00	0	(469,464)	(674,733)	(1,144,197)
Total Other Present Law Adjustments	0.55	\$0	\$51,386,068	\$50,007,237	\$101,393,305	(50.63)	\$0	\$78,631,374	\$25,301,918	\$103,933,292
Grand Total All Present Law Adjustments				\$103,007,287						\$105,578,806

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 202 - CMS Adjustment - The department estimates FTE and engineering costs via the Construction Management System (CMS) using standards that apply to the proposed construction plan. This adjustment would fund an increase of 0.55 FTE in fiscal 2004 and a reduction of 50.63 FTE in fiscal 2005, in combination with adjustments for preliminary and construction engineering functions in support of highway construction. The positions associated with this decision package are grade 8, engineering project aides.

DP 203 - Landowner Payments - The executive requests increases totaling nearly \$3.6 million federal special revenue and \$0.6 million state special revenue for the biennium to bring the base for land payments to the average annual amount that has occurred throughout the life of the Transportation Equity Act for the Twenty-first Century (TEA-21). Land payments support the right-of-way acquisition component of highway construction.

DP 204 - Contractor Payments / Federal Aid Construction - The department estimates when contractor payments will come due as an expenditure based on scheduled delivery of projects contained in the Tentative Construction Program (TCP). The TCP indicates when construction contracts will be let. This information is entered into a computerized management system, the Project Cost Scheduling System (PCS), that uses information including let dates, type of work, and other project criteria necessary to create estimates relative to contractor payments. Based on the PCS, increases are anticipated for contractor payments of nearly \$88 million for the 2005 biennium, consisting of \$12 million state special revenue and \$76 million federal special revenue.

DP 206 - US Highway 93 - The department has accelerated the construction process on US Highway 93 from Evaro Hill to Polson to double the current traffic capacity and address safety problems. Highway revenue bonds would be issued to provide the funding for this accelerated schedule. This request is for \$87.6 million state special revenue for the 2005 biennium to provide debt service for the bond issue.

Seven projects are interconnecting to provide the overall US Highway 93 improvement project. These projects are not part of the existing Tentative Construction Plan and are not included in the separate decision package titled Contractor Payments / Federal Aid Construction.

The sale of bonds would provide the funding to construct these projects in three years, whereby it would normally require ten or more years to design and construct projects of this magnitude. Because the highway runs through the Flathead Indian Reservation, the entire cost of the project qualifies for federal funding with no state match. As the bonds mature and are redeemed, the state special revenue would be reimbursed by federal aid from the Federal Highway Administration (FHWA) and the bonds and interest will be paid off. The entire proceeds from the bond issue will be received in fiscal 2004, but the expenditures would occur in fiscal years 2004 through 2006.

DP 207 - CMS Aggregate Positions - The Construction Program has certain organizational units that have aggregate positions (a position with several FTE). The people in these positions vary in experience from entry to those with a lot of experience. Through this process, all FTE in an aggregate position are funded based on the position attributes of the person most recent to the position. In most cases, that person is the lowest paid person in the position. Therefore all the other people in the position are not fully funded. The department uses a system called the Personal Services Budget Management System (PSBM) to compute the actual amount of funding needed to fully fund each person in the position. The PSBM has identified a shortage of just over \$1.1 million for the biennium. This request is for \$365,308 state special revenue and \$759,132 federal special revenue for the biennium to fully fund all aggregate positions in the Construction Program.

DP 209 - Contractor Payments / State Construction Program - Montana receives federal-aid highway construction funding based on a sliding scale match rate, described earlier. The Federal Highway Administration (FHWA) reimburses Montana for 87 percent of qualified expenditure on highway construction projects. The current FHWA reimbursement rate is considered a favorable rate and is only provided if Montana meets a minimum maintenance of effort on federal-aid highways. In order for Montana to retain this favorable rate, it must spend a minimum of \$10 million, on average, for each of three successive years in highway construction projects that are fully funded with state funds (state funded construction). In fiscal 2002, state expenditure on state funded construction projects was only \$1.3 million. The department anticipates a higher level in fiscal 2003, but to maintain the minimum maintenance of effort and to adjust for a low level of base activity, the department requests an increase of roughly \$27.7 million state special revenue for the biennium to fund state funded construction. (For further details, see the related topic of the agency discussion section.)

DP 210 - Overtime / Differential - Increases of \$2.4 million state special revenue and \$6.6 million federal special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT

Historical Expenditures

The program has expended an average \$3.6 million for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended \$3.9 million. With benefits added, the decision package amounts approximate base plus benefits.

DP 212 - Equipment Rental - Increases of \$93,000 state special revenue and \$235,000 federal special revenue for the biennium are requested to fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 213 - Roadway Striping - This request would fund a reduction of \$10 million federal special revenue for the biennium to move all pavement-striping contracts of the department, except post-construction striping included in highway construction contracts, to the Maintenance Program.

DP 214 - Alternative Pay Plan Conversion - Reductions of \$938,928 state special revenue and \$1,349,466 federal special revenue are recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 208 - Local Government Certification 02	1.00	0	23,114	45,002	68,116	1.00	0	22,065	42,832	64,897
DP 211 - Convert Metric measure to English measure 02	0.00	0	1,000,000	0	1,000,000	0.00	0	0	0	0
Total	1.00	\$0	\$1,023,114	\$45,002	\$1,068,116	1.00	\$0	\$22,065	\$42,832	\$64,897

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 208 - Local Government Certification - This request is for an additional \$45,179 state special revenue and \$87,834 federal special revenue for the biennium to fund an additional 1.00 FTE along with office equipment and a personal computer. The funding and new staff would support a program to allow local governments to directly receive and administer federal highway funds from Federal Highway Administration (FHWA) for local highway purposes. The program would include the communities of Billings, Great Falls, and Missoula. The staff in this request would monitor the use of these funds to assure all rules and regulations associated with the use of these funds are followed.

DP 211 - Convert Metric measure to English measure - This request is for \$1 million state special revenue for the biennium to convert from the Metric system of measure to the English system of measure. This funding would be used to hire a consultant to convert manuals and software programs back to the English measurement system from the metric system the department converted to when required by FHWA in the 1990s and to purchase new construction hardware such as steel tapes, chains, and survey rods.

LFD ISSUE

One-Time Conversion Costs

Once the tasks are completed and equipment is purchased to convert back to the English measurement system, this budget authority would not be needed. The legislature may wish to designate budget authority for these costs as one time only to prevent them from building the base for recurring expenditures.

Language

"Item 2 includes a total of \$63,690 for the 2005 biennium for the Montana Natural Resources Information System. Quarterly payments must be made upon receipt of the bills from the state library, up to the total amount appropriated."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	779.20	0.00	(11.03)	768.17	0.00	(11.03)	768.17	768.17
Personal Services	32,033,711	5,287,409	(516,906)	36,804,214	5,378,430	(520,602)	36,891,539	73,695,753
Operating Expenses	45,454,460	8,975,579	0	54,430,039	9,181,142	0	54,635,602	109,065,641
Equipment	71,275	0	0	71,275	0	0	71,275	142,550
Capital Outlay	13,367	55,000	0	68,367	55,000	0	68,367	136,734
Total Costs	\$77,572,813	\$14,317,988	(\$516,906)	\$91,373,895	\$14,614,572	(\$520,602)	\$91,666,783	\$183,040,678
State/Other Special	73,481,092	8,371,057	(516,906)	81,335,243	8,667,641	(520,602)	81,628,131	162,963,374
Federal Special	4,091,721	5,946,931	0	10,038,652	5,946,931	0	10,038,652	20,077,304
Total Funds	\$77,572,813	\$14,317,988	(\$516,906)	\$91,373,895	\$14,614,572	(\$520,602)	\$91,666,783	\$183,040,678

Program Description

The Maintenance Program is responsible for preserving and maintaining a safe and environmentally sound state highway transportation system and related facilities. Major maintenance activities include patching, repairing, and periodic sealing of highway surfaces; snow removal; and sanding.

Program Narrative

Department of Transportation Maintenance Program Major Budget Highlights	
- Total fund budget increases by \$17.8 million or 10.8 percent for the biennium - State special revenue funding increases by \$7.9 million or 5.1 percent for the biennium - Federal special revenue funding is increased by \$9.9 million or 97.2 percent for the biennium - Staffing is reduced by 11.03 FTE over the biennium - Highway striping contract administration is moved from the Construction Program - Maintenance costs for additional paved secondary roads assumed from local governments during the 2003 biennium - Weather caused low pavement preservation activities in fiscal 2002 511 nationwide traveler information system adds costs	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Maintenance Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	\$ 73,481,092	94.7%	\$ 81,335,243	89.0%	\$ 81,628,131	89.0%
03407 Highway Trust - Sp Rev	4,091,721	5.3%	10,038,652	11.0%	10,038,652	11.0%
Grand Total	\$ 77,572,813	100.0%	\$ 91,373,895	100.0%	\$ 91,666,783	100.0%

The Maintenance Program is primarily funded with highways state special revenue. Federal special revenue also funds a portion of the costs associated with the road reporter functions as well as qualifying highway maintenance activities. For the 2005 biennium, state special revenue would provide roughly 89 percent of the program's funding; federal special revenue provides the remaining 11 percent.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				4,131,452						4,226,258
Vacancy Savings				(1,446,633)						(1,450,418)
Inflation/Deflation				121,751						140,133
Fixed Costs				(555)						(555)
Total Statewide Present Law Adjustments				\$2,806,015						\$2,915,418
DP 301 - Secondary Road Mile Increase	0.00	0	96,540	0	96,540	0.00	0	144,660	0	144,660
DP 302 - Roadway Striping	0.00	0	804,430	5,000,000	5,804,430	0.00	0	804,430	5,000,000	5,804,430
DP 303 - Noxious Weed Control	0.00	0	132,044	0	132,044	0.00	0	134,861	0	134,861
DP 304 - Rest Area Maintenance	0.00	0	179,636	0	179,636	0.00	0	199,097	0	199,097
DP 306 - Overtime and Differential	0.00	0	2,602,590	0	2,602,590	0.00	0	2,602,590	0	2,602,590
DP 307 - Increased Contract Costs	0.00	0	81,588	0	81,588	0.00	0	81,588	0	81,588
DP 308 - Land Purchases	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 309 - Sign Template Stock	0.00	0	165,350	0	165,350	0.00	0	165,350	0	165,350
DP 310 - New Core Drill Building	0.00	0	24,589	0	24,589	0.00	0	24,734	0	24,734
DP 311 - Equipment Rental	0.00	0	850,309	0	850,309	0.00	0	966,947	0	966,947
DP 312 - Pavement Preservation	0.00	0	1,587,602	0	1,587,602	0.00	0	1,587,602	0	1,587,602
DP 313 - Travelers Information Service	0.00	0	180,000	0	180,000	0.00	0	180,000	0	180,000
DP 314 - Training	0.00	0	31,714	0	31,714	0.00	0	31,714	0	31,714
DP 316 - Travel Reduction	0.00	0	(69,985)	0	(69,985)	0.00	0	(69,985)	0	(69,985)
DP 317 - Alternative Pay Plan Conversion	0.00	0	(184,434)	0	(184,434)	0.00	0	(184,434)	0	(184,434)
Total Other Present Law Adjustments										
	0.00	\$0	\$6,511,973	\$5,000,000	\$11,511,973	0.00	\$0	\$6,699,154	\$5,000,000	\$11,699,154
Grand Total All Present Law Adjustments					\$14,317,988					\$14,614,572

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 301 - Secondary Road Mile Increase - This request increases state special revenue by \$241,200 for the biennium to purchase materials to maintain additional paved secondary roads transferred from the counties to the state under the guidelines provided in 60-2-203, MCA. Under this authority, the department would assume maintenance responsibilities for just over 32 additional lane miles in fiscal 2004 and 48 lane miles in fiscal 2005. Materials that would be purchased include such items as traffic paint, winter materials, replacement signs, and sand.

**LFD
COMMENT****Windfall for Counties**

On January 1, 2001, the department assumed maintenance responsibility for paved secondary roads of the state. Prior to this assumption, county governments, with county funding, maintained these roads. Currently and prior to this transfer of maintenance responsibilities, counties received an allocation of \$6.3 million from fuel tax revenues to help fund county road maintenance costs. When the department assumed the maintenance responsibility for these roads, the amount of fuel tax revenues was not changed. Since assuming the maintenance responsibility for these roads, the department has spent \$10.7 million in fiscal 2001 and \$9.8 million in fiscal 2002 on associated maintenance costs. Each year henceforth the department would continue to assume more roads as unpaved secondary roads are paved by the counties. As with this request, these additional roads maintained by the department would be a factor for higher maintenance costs.

DP 302 - Roadway Striping - This request for \$10.0 million federal special revenue and \$1.6 million state special revenue for the biennium would allow the Maintenance Program to assume all pavement striping activities currently being done by the Construction Program and would adjust the base for striping activities that were planned but deferred until fiscal 2003 due to wet spring weather. This funding would allow the Maintenance Program to manage all pavement-striping contracts of the department, except post-construction striping included in highway construction contracts.

DP 303 - Noxious Weed Control - This request for an additional roughly \$267,000 state special revenue for the biennium would fund noxious weed control measures along additional paved secondary road rights-of-way originally transferred from the counties to the state under the authority of 60-2-203, MCA.

DP 304 - Rest Area Maintenance - The executive requests an additional nearly \$379,000 state special revenue for the biennium to address cost increases experienced when renewing or replacing area maintenance contracts.

**LFD
COMMENT****Contract Cost Increase and Full-Time Operations**

The department has seen significant increases in rest area maintenance contract costs as the contracts for rest area janitorial and maintenance have been rebid. Contract increases of more than 25 percent are common. Previous concerns with the quality of rest area services have caused the department to tighten the contract specifications and standards. These more stringent standards along with the remote locations for many of the rest areas are factors for the cost increases. A performance audit of the rest area maintenance program is currently under way, but a final report has not been prepared. This audit may provide further insight to this program and will be available to the legislature when complete.

DP 306 - Overtime and Differential - An increase of \$5.2 million state special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

**LFD
COMMENT****Historical Expenditures**

The program has expended an average \$2.2 million for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended nearly \$2.3 million. With benefits added, the decision package amounts approximate base plus benefits.

DP 307 - Increased Contract Costs - An increase of just over \$163,000 state special revenue for the biennium is requested to address cost increases encountered when existing contracts are renewed for radio site land rent and for janitorial and cleaning contracts at the Helena headquarters facility and district facilities.

DP 308 - Land Purchases - An increase of \$60,000 state special revenue for the biennium is requested to purchase land for facility sites associated with Long-Range Building Program facilities.

**LFD
COMMENT****- Long-Range Building Program Facilities History**

As part of the Long-Range Building Program (LRBP), the legislature has typically funded capital construction projects that would necessitate land purchase. For example, the 1999 legislature approved \$2.1 million to construct equipment storage buildings and replace the Helena headquarters building and the 2001 legislature approved \$2.3 million to construct equipment storage buildings across the state. The land purchases in this request would support similar projects included in the LRBP for approval by the 2003 legislature. The department has typically purchased the land for these structures prior to approval of the capital funding.

DP 309 - Sign Template Stock - This request would increase state special revenue by nearly \$331,000 for the biennium to replace sign template stock that has been depleted. This stock is used to replace old or damaged signs on state highways.

DP 310 - New Core Drill Building - An increase of just over \$49,000 state special revenue for the biennium is requested to purchase janitorial and maintenance supplies for the new core drill building approved by the 2001 legislature in the Long-Range Building Program. The funding increase would also provide for increased utility costs for the new building, such as gas, electricity, and water.

DP 311 - Equipment Rental - An increase of \$1.8 million state special revenue for the biennium is requested to fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 312 - Pavement Preservation - An increase of roughly \$3.2 million state special revenue for the biennium is requested to adjust the base for pavement preservation activity that was below the planned level due to contract delays related to a wet spring construction season during the base year.

**LFD
COMMENT****Typical Pavement Expenditures**

The average annual expenditures for pavement preservation have been roughly \$10 million for fiscal years 2000 through 2002. Fiscal 2002 was roughly \$8 million, or \$2 million below the three-year average.

DP 313 - Travelers Information Service - An increase of \$360,000 state special revenue is requested for the state match associated with the 511 travelers information service that will start operating in 2003.

**LFD
COMMENT****511 Travelers Information Service**

The 511 travelers information service is part of a nationwide effort to streamline traveler information. This new service would replace the existing road reporting toll-free telephone system and is scheduled to be implemented by the end of calendar 2002.

DP 314 - Training - An increase of \$63,428 state special revenue is requested to provide training associated with the career ladder union agreement.

DP 316 - Travel Reduction - The executive is recommending a reduction of \$140,000 state special revenue for the biennium to bring the Maintenance Program travel back to the 2003 biennium travel budget level.

DP 317 - Alternative Pay Plan Conversion - A reduction of \$368,868 state special revenue is recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 315 - FTE Reduction										
03	(11.03)	0	(\$16,906)	0	(\$16,906)	(11.03)	0	(\$20,602)	0	(\$20,602)
Total	(11.03)	\$0	(\$516,906)	\$0	(\$516,906)	(11.03)	\$0	(\$520,602)	\$0	(\$520,602)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 315 - FTE Reduction - The executive recommends a reduction of roughly \$1 million state special revenue for the biennium or the equivalent of 11.03 FTE in each year. The FTE reduction is based on a needs survey conducted by the program in fiscal 2002.

LFD COMMENT

Stated Objectives of Needs Assessment

The department conducted an internal review of the Maintenance Program with the following objectives stated in the final report:

- o To provide an in-depth analysis of current operations
- o To make decisions on staffing, equipment, and facility needs to enhance operations based on valid data
- o To provide a better quality assurance to our customers, reduce overtime, and enhance utilization of staff, equipment, and facilities
- o To ensure the Maintenance Operation is staffed and equipped in the most cost effective manner

The final report, available from the department, was used to determine the staffing needs for the Maintenance Program and was used as the basis for the staffing reductions contained in this recommendation.

Proprietary Rates

Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees who conduct official state business. The State Motor Pool has two basic components: 1) the daily rental fleet; and 2) the out-stationed lease fleet. The daily rental program operates out of the Helena headquarters facility and provides vehicles for short-term use. The leasing program provides vehicles for extended assignment (biennial lease) to agencies statewide.

Other Options to Use of the Program

Use of the program is optional to agencies when personnel are required to travel by vehicle for official state business, but is encouraged in the Montana Operations Manual. Other options for state employees are: 1) other state-owned vehicles not part of the State Motor Pool fleet; 2) personal vehicles, with authorization provided by the agency director; or 3) vehicles from a private rental agency contract. State law encourages use of the program through a reimbursement rate for use of personal vehicles for state business travel that is set at 52 percent of the low mileage rate allowed by the United States Internal Revenue Services unless a State Motor Pool vehicle is not available.

Significant Program Growth

The program has increased from 318 units in fiscal 1994 to 783 in fiscal 2002. During that time, annual mileage increased from 4.1 million to 11.1 million miles. This growth in the number of vehicles and miles traveled is largely due to the practice of the Office of Budget and Program Planning stipulating agencies to lease new vehicles from the State Motor Pool instead of directly purchasing vehicles.

LFD ISSUE

Motor Pool is Growing But Non-Motor Pool Vehicle Costs are Not Decreasing

A 1996 Legislative Audit Division audit of statewide vehicle maintenance identified a concern that vehicles were not being maintained or managed in a consistent and reliable manner. Following this audit finding, the executive began an initiative to expand the State Motor Pool outstation lease program by not approving budget requests for agencies to purchase new agency owned vehicles, but to lease vehicles from the State Motor Pool.

As stated below, the State Motor Pool fleet has grown by more than 2.5 times its fiscal 1994 size. With this growth of the motor pool and the initiative of the executive, it would be expected that purchases of vehicles by state agencies would decline as a result. However, from fiscal 2000 through fiscal 2002, the amount of all funds expended to purchase and operate automobiles and trucks has remained constant at more than \$4.0 million per year and has even increased by \$0.5 million in fiscal 2002.

With legislative concern over state employee travel, as evident by travel-related budget reductions to agency budgets during the last several legislatures, it might wish to establish some type of policy to govern the purchase, management, and use of state vehicles.

Options the legislature might consider to identify how vehicles are being purchased, managed, and used by state agencies include:

- An audit of statewide vehicle ownership, management, and use
- A required report to an appropriate legislative committee to be used to develop recommendations of legislative policies for when agencies may purchase vehicles, how vehicles should be managed and maintained, and how state vehicles may be used to conduct state business
- Take no action

Revenue Description

Revenue is generated through vehicle rental fees and from the gain on sale of surplus assets. Vehicle rental fees provide roughly 98 percent of the revenue for the program. Rental fee revenues are functionally tied to the travel requirements of various user agencies. The program also receives revenue from accident damages reimbursed by private individuals or insurance companies. These damage reimbursement revenues generally cover only the expenses to repair the damage.

Vehicle rental fees come from two service classes: 1) short-term rentals and 2) long-term leases. Short-term rentals serve agency personnel generally located in the Helena area who need to travel to other state locations and return to Helena at the culmination of the travel event. Long-term leases serve agencies with personnel housed in offices in Helena and in other parts of the state and who frequently travel as a normal part of their work assignments. Long-term vehicles are typically housed and managed out of using agency office locations and only returned to the State Motor Pool facilities for maintenance or reassignment.

Expense Description

The State Motor Pool is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet, including funding for 6.00 FTE. The program pays all costs directly associated with vehicle operations, including liability insurance. The State Motor Pool is reimbursed for costs directly attributable to operator abuse and accident costs caused by an outside party. User agencies can pay for optional full coverage insurance costs associated with employee use of State Motor Pool vehicles. The cost of this supplemental insurance is not included in the State Motor Pool rate structure.

The majority of the costs of the program are fixed costs, as they cannot be traced directly to specific miles driven by State Motor Pool vehicles. Fixed costs are supported by the assigned rates allocated to the seven classes of vehicles. Indirect costs are made up primarily of overhead costs and are allocated equally to all units of the fleet. The motor pool management system tracks direct costs and allocates them to the particular unit class the costs apply. Direct costs, such as gasoline, oil, and tires, are supported by the usage rates for all seven classes of vehicles. The program has included a 3 percent annual increase when projecting costs for vehicle purchase and operating costs.

The program uses loans from the Board of Investments (BOI) to fund vehicle purchases. Interest rates on BOI loans are adjusted annually and vary from one purchase cycle to the next. The outstanding loan balance and interest and principal payments have the greatest impacts on motor pool rental rates and are supported by the assigned time rate because of their indirect nature.

Working Capital Discussion

Rental rates are set to recover sufficient revenue to meet loan principal and interest payments, and operating costs, and to allow maintaining no more than a 60-day working capital balance. If the program does not generate sufficient revenue to make interest and principal payments, a short-term loan would be requested or assets would be sold to satisfy the loan obligations. The program billing and payment cycles support the accumulation of a 60-day working capital balance. User agencies are billed monthly and payments are requested to pay for services by the end of the next month. This allows the program to make monthly expense payments and accumulate adequate working capital to pay quarterly interest payments on the BOI loans and the annual payment on loan principal. The program was not able to attain an adequate working capital level during the base year. The program has included a factor to increase the working capital balance in the 2005 biennium rate request.

Fund Equity and Reserve Fund Balance

The program rents vehicles for use by other state government entities. The number of vehicles in the program has grown to 783 vehicles, nearly 2.5 times the 1994 fleet size. Because of this growth and federal regulations, the program has needed to borrow funds to purchase new vehicles. As such, the balance sheet for the program has \$13.8 million in equipment assets with vehicles comprising nearly 100 percent of total assets. The equipment assets are depreciated to nearly 30 percent of their cost, for a book value of \$9.6 million financed by \$7.7 million of long-term debt. The resultant fund equity is \$2.1 million or 15.2 percent of total assets. An adjustment to decrease the fund equity balance is included in the rates. The adjustment is for net income gains from 1998 to 2002. The adjustment has the effect of reducing rates and is applied equally for both years of the 2005 biennium. The table titled "Report on Internal Service and Enterprise Funds, 2005 Biennium" shows the financial profile for the operation of the State Motor Pool for the 2001 through 2005 biennia.

Rate Explanation

The State Motor Pool rental rates are based on a two-tiered structure. Users pay a usage rate and an assigned rate. The usage rate is charged for actual miles driven and allows the program to recover costs directly related to the operation of

the vehicle, such as repair labor and parts, fuel, lubricants, tires, and tubes. The assigned rate allows the program to cover fixed costs associated with state ownership, such as insurance, principal and interest payments on BOI loans, depreciation, and other indirect expenses. The two-tiered rate structure first used in the 2003 biennium provides: 1) a stable revenue to pay loan payments and other cost obligations; and 2) equity among all vehicles classes so that one vehicle class does not subsidize another vehicle class.

The motor pool management system cost history for the two-tiered rate related to direct and indirect costs for each vehicle class was used to project final costs for the 2003 biennium and budgeted costs for the 2005 biennium. For the 2005 biennium, projected costs were adjusted for: 1) anticipated additional lease vehicles purchases; 2) anticipated interest rate increases; and 3) cost inflation of 3 percent.

The rates using the two-tiered structure are applied as follows for the two components of the State Motor Pool:

Daily rental:

$$\text{Cost (per occurrence)} = (\text{HR} \times \text{AR}) + (\text{AM} \times \text{MR}),$$

Out-stationed lease:

$$\text{Cost (annual)} = (2920 \times \text{AR}) + (\text{AM} \times \text{MR}),$$

where:

HR = 8 hours for each day the vehicle is checked out from the motor pool, including weekends;

AR = per hour assigned rate;

AM = actual miles traveled

MR = per mile operated rate.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06506	Motor Pool	54010	Dept. of Transportation	Maintenance

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	3,430,021	3,586,262	3,642,836	3,756,000	4,076,480	4,557,277
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	803	3	-	-	-
Total Operating Revenues	3,430,021	3,587,065	3,642,839	3,756,000	4,076,480	4,557,277
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	3,430,021	3,587,065	3,642,839	3,756,000	4,076,480	4,557,277
Operating Expenses:						
Personal Services	204,463	204,104	249,998	254,309	259,744	259,783
Other Operating Expenses	2,787,532	3,113,763	2,948,220	3,139,232	4,246,736	4,727,494
Miscellaneous, operating	4,244	2,876	6,466	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	2,996,239	3,320,743	3,204,684	3,393,541	4,506,480	4,987,277
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	2,996,239	3,320,743	3,204,684	3,393,541	4,506,480	4,987,277
Operating Income (Loss)	433,782	266,322	438,155	362,459	(430,000)	(430,000)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(17,713)	(101,234)	22,997	10,000	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(17,713)	(101,234)	22,997	10,000	-	-
Income (Loss) Before Operating Transfers	416,069	165,088	461,152	372,459	(430,000)	(430,000)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	1,965,532	1,953,875	2,118,963	2,580,115	2,952,574	2,522,574
Net Income (Loss)	416,069	165,088	461,152	372,459	(430,000)	(430,000)
Retained Earnings/Fund Balances - June 30	2,381,601	2,118,963	2,580,115	2,952,574	2,522,574	2,092,574
60 days of expenses (Total Operating Expenses divided by 6)	499,373	553,457	534,114	565,590	751,080	831,213

For the 2005 biennium, the State Motor Pool requests legislative approval of the rates shown in Figure 7A.

Figure 7A State Motor Pool Base and 2005 Biennium Requested Rates							
Class	Description	Fiscal 2002		Fiscal 2004		Fiscal 2005	
		Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)
2	Small Utilities	\$ 1.597	\$ 0.022	\$ 2.040	\$ 0.098	\$ 2.211	\$ 0.098
4	Large Utilities	2.116	0.056	2.251	0.099	2.469	0.099
6	Mid-Size Compact	1.501	0.054	1.370	0.067	1.516	0.067
7	Small Pickups	1.270	0.030	1.123	0.110	1.243	0.110
11	Large Pickups	1.832	0.056	1.284	0.123	1.451	0.123
12	Van, All Types	1.449	0.071	1.372	0.134	1.476	0.134

**LFD
COMMENT****Perspective on Rate Changes**

Figure 7B shows the changes from the fiscal 2002 rates to the requested rates. The changes in assigned time rates, for the most part, are offsetting. The rates for some vehicle classes increase while rates for other vehicle classes decline by roughly similar amounts and percentages. Alarm could be raised when observing the increases

associated with usage rates for all vehicles. A significant cause for this increase between the fiscal 2002 rates and the rates requested for the 2005 biennium is an error in the development of the HB 2 rate tables during the 2001 legislature.

The General Government and Transportation Subcommittee recommended a set of rates different than those contained in the Executive Budget because the rates in the Executive Budget were in error. However, during the preparation of the narrative for the rates that were submitted to the Appropriations Committee, the rates in the Executive Budget were included instead of the revised rates. As such, the Appropriations Committee inadvertently approved rates that were lower than those recommended by the General Government and Transportation Subcommittee and not sufficient to recover costs

Figure 7C

Changes from State Motor Pool Base Rates
Error Compensated

Class	Description	Usage		Usage	
		(per mile)	% change	(per mile)	% change
2	Small Utilities	\$ (0.006)	(5.8)	\$ (0.006)	(5.8)
4	Large Utilities	(0.005)	(4.8)	(0.005)	(4.8)
6	Mid-Size Compact	(0.005)	(6.9)	(0.005)	(6.9)
7	Small Pickups	0.002	1.9	0.002	1.9
11	Large Pickups	0.015	13.9	0.015	13.9
12	Van, All Types	0.026	24.1	0.026	24.1

Figure 7B

Changes from State Motor Pool Base Rates

Class	Description	Fiscal 2004				Fiscal 2005			
		Assigned (per hr)	% change	Usage (per mile)	% change	Assigned (per hr)	% change	Usage (per mile)	% change
2	Small Utilities	\$ 0.443	27.7	\$ 0.076	345.5	\$ 0.614	38.4	\$ 0.076	345.5
4	Large Utilities	0.135	6.4	0.043	76.8	0.353	16.7	0.043	76.8
6	Mid-Size Compact	(0.131)	(8.7)	0.013	24.1	0.015	1.0	0.013	24.1
7	Small Pickups	(0.147)	(11.6)	0.080	266.7	(0.027)	(2.1)	0.080	266.7
11	Large Pickups	(0.548)	(29.9)	0.067	119.6	(0.381)	(20.8)	0.067	119.6
12	Van, All Types	(0.077)	(5.3)	0.063	88.7	0.027	1.9	0.063	88.7

commensurate with the State Motor Pool operations. The legislature and the Governor subsequently approved these erroneous rates. The State Motor Pool has been limited to the lower rates during the 2003 biennium. Figure 7C shows the rates approved by the General Government and Transportation Subcommittee of the 2001 legislature and the corresponding change from these rates had they been approved by the legislature. Only the usage rates are shown because they were the only rates affected by the error.

Significant Present Law Adjustments

The executive requests two present law adjustments that would increase biennium expenses by \$5.7 million and contribute to rate changes for the State Motor Pool: 1) purchase vehicles; and 2) adjust for fuel for new vehicles being added to the fleet.

Purchase Vehicles

The executive proposes to purchase 273 vehicles in fiscal 2004 and 194 vehicles in fiscal 2005. In fiscal 2004, 226 of the vehicles would be to replace vehicles that would reach the end of their economic lives at the time of vehicle purchase. Likewise, 164 vehicles would be replaced in fiscal 2005. Other vehicles purchased, 47 in fiscal 2004 and 30 in fiscal 2005, would be used to increase the out-stationed vehicle fleet to satisfy statewide vehicle needs for long-term leases in agencies instead of each agency individually purchasing and managing new vehicles. This vehicle acquisition would increase program expenses by \$5.1 million during the biennium. This adjustment is the primary factor for the changes in the assigned time rates for the 2005 biennium.

Adjust for Fuel for New Vehicles

The executive requests an increase of just over \$581,000 to fund fuel purchases for the daily use fleet. Since fuel is a variable cost dependant on usage of State Motor Pool vehicles, this adjustment is the primary factor driving the usage rate changes for the 2005 biennium.

Proprietary Rates

Program Description

The Equipment Program is responsible for the acquisition, disposal, repair, and maintenance of a fleet of approximately 4,600 individual units. The fleet is comprised of light duty vehicles, single and tandem axle dump trucks, specialized snow removal units, roadway maintenance units, and other specialized equipment. Other programs of the Department of Transportation are the exclusive users of the fleet. Costs for the program are financed through rental fees charged to user programs.

Program Growth

The program has increased the fleet size over the last two biennia due to: 1) increased federal-aid highway construction funding; and 2) the assumption of secondary roads by the department. At fiscal year end 1997, the program had 4041 units operated for more than 20 million miles per year. At the end of fiscal 2002, the fleet had grown to 4609 units operated for nearly 23 million miles.

Revenue Description

Revenue is generated through the vehicle and equipment rental fees and from the gain on sale of surplus assets. Rental fees provide the majority of the revenue for the program. Revenues for the fleet are functionally tied to the severity of the winters, construction program workload, and travel requirements of the various programs using the equipment. As such, annual mileage and hours of usage can vary significantly. The program anticipates an increase in miles of travel and hour of usage due to the department's goal of improving the service to the traveling public. The rental rates would be set to cover anticipated increased expenses for fuel, cutting edges for snowplows, and repair parts that result from increased usage.

Expense Description

The program is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet, including funding for 122.00 FTE. The program pays all costs directly associated with vehicle and equipment operations, including liability insurance and fuel. The Equipment Program is reimbursed for accident costs caused by an outside party and is reimbursed for any warranty work completed by department personnel.

Indirect costs or costs that cannot be traced directly to specific usage of the vehicles and equipment are supported by the assigned rates and are allocated to each of the equipment fleet class and subclass. Direct costs or costs that can be traced directly to a particular unit use include fuel, oil, and tires and are supported by usage rates. Indirect costs consist mainly of overhead costs and are allocated equally to all units of the fleet. The equipment management system tracks direct costs and allocates them to the particular unit class the costs apply.

Working Capital Discussion

Equipment rental rates are set to recover sufficient revenue to purchase assets, cover normal operating expenses, and maintain no more than a 60-day working capital balance. Revenue is generated through rental rates, gain on sale of surplus assets, and damage settlements. The primary source of revenue is from user rental fees charged for the use and possession of vehicles and equipment. Rental fees are based on a dual rate structure for actual miles driven (usage rate) and a possession rate (assigned rate). Actual miles of travel and hours of usage are reported biweekly and billings are generated on the same schedule as payrolls. Approximately \$700,000 in rental revenue is generated every two weeks. Rental revenue varies with the season, weather conditions, and workloads. Auction revenue varies depending on the number and types of units being sold. The program also receives incidental revenues for accident damages that are reimbursed by private individuals or insurance companies. The amount generally covers the expenditures to repair the damage. If the program does not generate sufficient revenue to meet these obligations then the program would either liquidate assets or receive a loan.

Fund Equity and Reserved Fund Balance

The fund equity balance shows an increase due primarily from the increased fleet size that resulted when the department assumed maintenance responsibility for paved secondary roads. Revenues are anticipated to equal operation expenses and the working cash is projected to be less than the 60 days maximum allowable by the end of each fiscal year. In each

fiscal year since 1999, federal money has been available to purchase equipment. The equipment is then donated to the Equipment Program and the donated equipment contributes to the increase in the fund equity balance. With this federally funded equipment, the Equipment Program is obligated to maintain the equipment and will replace the units when their life cycles and costs dictate replacement. The table titled "Report on Internal Service and Enterprise Funds, 2005 Biennium" shows the financial profile for the operation of the State Motor Pool for the 2001 through 2005 biennia.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name		
06508	Highway Equipment	54010	Dept. of Transportation	Equipment		
					actual FY00	actual FY01
					actual FY02	budgeted FY03
					budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue					15,565,650	16,838,910
Investment Earnings					-	-
Securities Lending Income					-	-
Premiums					-	-
Other Operating Revenues					2,015	77,899
Total Operating Revenues					15,567,665	16,916,809
Intrafund Revenue					-	-
Net Operating Revenues					15,567,665	16,916,809
Operating Expenses:						
Personal Services						
Other Operating Expenses					4,919,823	4,990,443
Miscellaneous, operating					11,934,853	12,592,577
Miscellaneous, other					144,006	159,024
Total Operating Expenses					-	-
Intrafund Expense					16,998,682	17,742,044
Net Operating Expenses					16,998,682	17,742,044
Operating Income (Loss)					1,327,241	98,883
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets						
Federal Indirect Cost Recoveries					120,633	138,919
Other Nonoperating Revenues (Expenses)					393,925	-
Net Nonoperating Revenues (Expenses)					-	-
Income (Loss) Before Operating Transfers					(1,310,384)	(686,316)
Contributed Capital					7,138,843	14,288,525
Operating Transfers In (Note 13)					-	612,216
Operating Transfers Out (Note 13)					-	-
Retained Earnings/Fund Balances - July 1 - As Restated					39,696,285	36,353,086
Net Income (Loss)					5,828,459	13,602,209
Retained Earnings/Fund Balances - June 30					45,524,744	49,955,295
60 days of expenses					2,833,114	2,957,007
(Total Operating Expenses divided by 6)					2,894,384	3,244,886

Cash Flow Discussion

The Equipment Program serves only other programs of the Department of Transportation. The cash flow is dependent on rental revenue and auction proceeds. If Montana experiences a harsh winter season, usage is higher and correspondingly rental revenues are higher. The Equipment Program cash balance is generally less than the allowable 60-day maximum. With less than 60-day cash the program, at times, does not have sufficient cash to cover obligations due at the beginning of each fiscal year. One significant expense that is paid at the beginning of the year is liability insurance

paid to the Department of Administration Risk Management and Tort Claims Division for vehicle insurance. When needed for cash flow purposes, the program negotiates, at no interest, an inter-entity loan from the highway state special revenue account. The loan is repaid when rental revenues have generated enough cash to pay ongoing cash obligations.

Proprietary Rate Explanation

The rental rates are based on a two-tiered rate structure. Equipment users pay a usage rate and an assigned rate. The usage rate is a per mile or hourly rate that is applied to a vehicle or piece of equipment for the actual miles or hours used and is designed to recover direct costs such as labor, parts, fuel, lubricants, tires and tubes. The assigned rate is designed to recover fixed costs such as insurance, depreciation, and indirect costs. Rental rates are adjusted each year based on the previous year operating experience. The rates are based on the actual operational costs for each sub-class for the base rental period. These costs are adjusted to reflect changes in operations or operating costs from the base. The program's financial position also is considered in the rate development process in order to maintain a cash balance that will not exceed the 60-day maximum cash balance requirement. The program is requesting that the legislature not approve specific rental rates for each piece of equipment or equipment class, but a program operating parameter that limits the program from charging rental rates that collect more than 60 days of working capital. The effects of rate changes are only felt by programs internal to the Department of Transportation, which are funded primarily through legislative appropriations.

Significant Present Law Adjustments

The executive requests two present law adjustments that would increase biennium expenses by \$1.9 million and contribute to rate changes for the Equipment Program: 1) equipment replacement increase; and 2) fleet management system.

Equipment Replacement Increase

The executive recommends an increase of roughly \$1.8 million for the biennium to replace existing equipment that would be at the end of their economic lives and fully depreciated when replaced.

Because the program has roughly 4,600 individual units funded with more than 200 separate rental rates and because the program has requested rates based on a maximum working capital philosophy, the impacts this adjustment would have on the individual rates are not determinable. However, this adjustment is equivalent to a 5 percent annual increase in net operating expenses over the base year and would be funded through the assigned rates.

Fleet Management System

The executive recommends an increase of \$100,000 for the biennium to provide enhancements to the existing fleet management system. This request would convert the software coding to a common data structure and code hierarchy to aid in management of system data.

As stated, the impacts this adjustment would have on the individual rates are not determinable because of the large number of individual rates. However, this adjustment is equivalent to a 0.2 percent annual increase in net operating expenses over the base year and would be funded through the assigned rates.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	111.50	0.00	0.00	111.50	0.00	0.00	111.50	111.50
Personal Services	3,980,544	478,753	0	4,459,297	472,510	0	4,453,054	8,912,351
Operating Expenses	795,104	(6,765)	0	788,339	44,953	0	840,057	1,628,396
Total Costs	\$4,775,648	\$471,988	\$0	\$5,247,636	\$517,463	\$0	\$5,293,111	\$10,540,747
State/Other Special	4,775,648	471,988	0	5,247,636	517,463	0	5,293,111	10,540,747
Total Funds	\$4,775,648	\$471,988	\$0	\$5,247,636	\$517,463	\$0	\$5,293,111	\$10,540,747

Program Description

The Motor Carrier Services Division enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety. The Licensing and Permit Bureau registers interstate fleet vehicles, issues commercial vehicle licenses, issues oversize/overweight permits, and collects and distributes fees and taxes. The Enforcement Bureau operates a statewide weigh station and mobile enforcement program and assigns uniformed officers to inspect commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws.

Program Narrative

Department of Transportation Motor Carrier Services Division Major Budget Highlights	
○	State special revenue increases by \$521,000 or 5.2 percent for the biennium
○	Increased credit card usage to pay for fees increases costs

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Motor Carrier Services Div.						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02422 Highways Special Revenue	\$ 4,775,648	100.0%	\$ 5,247,636	100.0%	\$ 5,293,111	100.0%
Grand Total	\$ 4,775,648	100.0%	\$ 5,247,636	100.0%	\$ 5,293,111	100.0%

The Motor Carrier Services Division is fully funded by the highways state special revenue fund, which receives revenue from highway user fees such as motor fuel taxes and gross vehicle weight fees.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				513,236						506,738
Vacancy Savings				(179,757)						(179,502)
Inflation/Deflation				6,693						7,374
Fixed Costs				0						0
Total Statewide Present Law Adjustments				\$340,172						\$334,610
DP 2201 - Wyoming/Montana Joint Port Project	0.00	0	0	0	0.00	0	50,000	0	50,000	
DP 2202 - Overtime and Differential Pay	0.00	0	145,274	0	0.00	0	145,274	0	145,274	
DP 2203 - Increased Credit Card Usage	0.00	0	20,000	0	0.00	0	20,000	0	20,000	
DP 2204 - Equipment Rental	0.00	0	7,558	0	0.00	0	8,595	0	8,595	
DP 2205 - Alternative Pay Plan Conversion	0.00	0	(41,016)	0	0.00	0	(41,016)	0	(41,016)	
Total Other Present Law Adjustments										
	0.00	\$0	\$131,816	\$0	0.00	\$0	\$182,853	\$0	\$182,853	
Grand Total All Present Law Adjustments				\$471,988						\$517,463

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2201 - Wyoming/Montana Joint Port Project - An increase of \$50,000 state special revenue in fiscal 2005 is requested to train the Wyoming officers to enforce Montana's commercial vehicle laws on Montana's behalf once a new weigh station is completed along Interstate 90 on the Wyoming side of the border with Montana.

LFD COMMENT Joint Weigh Station Operated by Wyoming
The Montana Department of Transportation (MDT) and the Wyoming Department of Transportation are constructing a joint port-of-entry weigh station on Interstate 90 between Sheridan, Wyoming and the Montana border. The new facility will service traffic traveling north and south on Interstate 90 and will be staffed with Wyoming officers who will enforce Montana commercial vehicle laws on Montana's behalf. After completion of the new facility in late 2005, Montana's existing Crow Agency Weigh Station will be closed and dismantled, and the two Motor Carrier Services officers currently assigned to this weigh station will be reassigned to another Montana facility.

DP 2202 - Overtime and Differential Pay - An increase of \$290,548 state special revenue for the biennium is requested to reestablish base year overtime and differential pay plus associated benefits.

LFD COMMENT Historical Expenditures
The program has expended an average \$85,065 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended \$126,323. With benefits added, the decision package amounts approximate base plus benefits.

DP 2203 - Increased Credit Card Usage - An increase of \$40,000 state special revenue for the biennium is requested to fund credit card fees associated with increased use of automated transactions by the commercial motor carrier industry.

DP 2204 - Equipment Rental - This request would fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 2205 - Alternative Pay Plan Conversion - A reduction of \$82,032 state special revenue is recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	408,651	49,033	0	457,684	49,757	0	458,408	916,092
Operating Expenses	296,799	203,878	3,600,000	4,100,677	32,835	0	329,634	4,430,311
Equipment	16,485	(6,594)	0	9,891	(6,594)	0	9,891	19,782
Grants	301,054	731,946	0	1,033,000	(301,054)	0	0	1,033,000
Transfers	25,452	0	0	25,452	0	0	25,452	50,904
Total Costs	\$1,048,441	\$978,263	\$3,600,000	\$5,626,704	(\$225,056)	\$0	\$823,385	\$6,450,089
State/Other Special	1,048,441	798,263	180,000	2,026,704	(225,056)	0	823,385	2,850,089
Federal Special	0	180,000	3,420,000	3,600,000	0	0	0	3,600,000
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$1,048,441	\$978,263	\$3,600,000	\$5,626,704	(\$225,056)	\$0	\$823,385	\$6,450,089

Program Description

The Montana Aeronautics Division: 1) facilitates the maintenance of airports and the various components of airport infrastructure, including visual and electronic navigational facilities and flying aids; 2) fosters, promotes, and supervises aviation and aviation safety through educational efforts and programs; 3) registers aircraft and pilots in accordance with Montana laws and regulations; and 4) coordinates and supervises aerial search and rescue operations. In accordance with the maintenance and safety aspects of the division's purpose, it administers a loan and grant program to municipal governments to provide funding for airport improvement projects. The Aeronautics Board approves all loan and grant requests and advises on matters pertaining to aeronautics.

The division serves as a liaison between the State of Montana and various other entities including the U.S. Department of Transportation, the Federal Aviation Administration (FAA), other federal and state entities, and commercial airlines in order to assure the retention and continuation of airline service to Montana's rural communities. The division is also responsible for operation of the air carrier airport at West Yellowstone and for 12 other state-owned airports.

Program Narrative

Department of Transportation Aeronautics Program Major Budget Highlights	
○ Total fund budget increases by \$3.4 million or 110.8 percent for the biennium ○ State special revenue funding increases by \$0.3 million or 11.2 percent for the biennium ○ Federal special revenue funding increases by \$3.1 million or 622.9 percent for the biennium to finance runway rehabilitation work on state-owned airports	
Major LFD Issues	
○ One-time funding for airport rehabilitation projects	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Aeronautics Program						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02100 Aeronautics Private Funds Nb	\$ -	-	\$ -	-	\$ -	-
02287 Aeronautical Grant Account	181,922	17.4%	803,840	14.3%	-	-
02827 Aeronautics Division	747,387	71.3%	993,704	17.7%	823,385	100.0%
02962 Airport Pmnt. Preservation	119,132	11.4%	229,160	4.1%	-	-
03060 Aeronautics Division	-	-	3,600,000	64.0%	-	-
06007 West Yellowstone Airport	-	-	-	-	-	-
Grand Total	\$ 1,048,441	100.0%	\$ 5,626,704	100.0%	\$ 823,385	100.0%

The Aeronautics Program, excluding the operations of the West Yellowstone Airport, is funded by both state and federal special revenue funds. State special revenue funds are derived primarily from state aviation fuels taxes and aviation license fees. Federal special revenue comes from federal aviation administration grants. Operations of the West Yellowstone Airport are funded from an enterprise type proprietary fund with revenues that include local property taxes, rentals and leases, concession sales receipts, and landing fees. Because the proprietary funds do not require an appropriation, they are not included in the above table.

For the 2003 biennium, state special revenue provides 92.8 percent of the program's funding and federal special revenue provides the remaining 7.2 percent. Because of large requests for federal funding, state special revenue would provide 44 percent of the program funding while federal special revenue would provide the remaining 56 percent for the 2005 biennium.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				62,769					63,522	
Vacancy Savings				(18,858)					(18,887)	
Inflation/Deflation				3,510					4,456	
Fixed Costs				1,210					1,209	
Total Statewide Present Law Adjustments				\$48,631					\$50,300	
DP 4003 - Overtime and Differential										
0.00	0	5,122	0	5,122	0.00	0	5,122	0	5,122	
DP 4004 - Program/Service Cost Adjustments										
0.00	0	(7,436)	0	(7,436)	0.00	0	20,576	0	20,576	
DP 4005 - Grant Increases - Biennial Appropriations										
0.00	0	731,946	0	731,946	0.00	0	(301,054)	0	(301,054)	
DP 4006 - Statewide Plan Update - Biennial Appropriations										
0.00	0	20,000	180,000	200,000	0.00	0	0	0	0	
Total Other Present Law Adjustments										
0.00	\$0	\$749,632	\$180,000	\$929,632	0.00	\$0	(\$275,356)	\$0	(\$275,356)	
Grand Total All Present Law Adjustments				\$978,263					(\$225,056)	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4003 - Overtime and Differential - An increase of \$10,244 state special revenue for the biennium is requested to reestablish base year overtime and differential pay plus associated benefits.

**LFD
COMMENT****Historical Expenditures**

The program has expended an average \$5,000 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended roughly \$4,500. With benefits added, the decision package amounts approximate base plus benefits.

DP 4004 - Program/Service Cost Adjustments - This request generally adjusts the Aeronautics Program base to eliminate one-time expenditures and the Pan Am Weather program and to provide increases for contracts, the air search program, and operating costs associated with vacancies during the base year. The fiscal 2005 increase includes \$30,000 for costs associated with the revision to the aeronautical chart that supports a Federal Aviation Administration requirement to update the state charts every four years. For the biennium, state special revenue increases by just over \$13,000. However, in fiscal 2004, the base year for the 2007 biennium budget, is a reduction of nearly \$7,500.

DP 4005 - Grant Increases - Biennial Appropriations - An increase of nearly \$431,000 state special revenue for the biennium is requested for airport grants to communities. Airport grants are used for airport safety and development projects, pavement preservation projects, and for purchasing courtesy cars at qualified airports where rental cars are not available. The executive requests a biennial appropriation for this adjustment and the associated base. With the base, total grant authority for these purposes would be \$1,033,000 state special revenue for the biennium.

DP 4006 - Statewide Plan Update - Biennial Appropriations - An increase of \$200,000 comprised of \$20,000 state special revenue and \$180,000 federal special revenue is requested for the biennium to provide grants for airport standards review and capital improvement plan updates required by the Federal Aviation Administration every five years. The executive requests a biennial appropriation for this funding.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 4001 - Runway Rehab West Yellowstone Airport - Biennial										
40	0.00	0	0	1,800,000	1,800,000	0.00	0	0	0	0
DP 4002 - Runway Rehab Lincoln Airport - Biennial Approp										
40	0.00	0	180,000	1,620,000	1,800,000	0.00	0	0	0	0
Total	0.00	\$0	\$180,000	\$3,420,000	\$3,600,000	0.00	\$0	\$0	\$0	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 4001 - Runway Rehab West Yellowstone Airport - Biennial - An increase of \$1.8 million federal special revenue is requested for a runway pavement rehabilitation project at the West Yellowstone Airport. The rehabilitation would restore runway pavement to Federal Aviation Administration standards. This request would provide 90 percent of the funding for the project. The state match would come from proprietary funds discussed in the proprietary rates section for this program. The executive requests a biennial appropriation for this funding.

**LFD
ISSUE****West Yellowstone Airport Runway Pavement Rehabilitation - One-Time Authority**

This project is a major capital improvement project intended to restore the West Yellowstone Airport runway pavement to federal standards and not for routine or regularly recurring maintenance. As such, the legislature may wish to designate this funding as one time only in addition to the biennial designation requested by the executive. One-time-only funding would exclude this funding from the base for the 2007 biennium when it would not be needed.

DP 4002 - Runway Rehab Lincoln Airport - Biennial Appropriation - Increases of nearly \$0.2 million state special revenue \$1.6 million federal special revenue are requested for a runway pavement rehabilitation project at the Lincoln Airport. The rehabilitation would restore runway pavement to Federal Aviation Administration standards. The Lincoln Airport is one of 15 state owned airports and 4 with paved runways, of which 2 are currently eligible for federal participation. The executive requests a biennial appropriation for this funding.

**LFD
ISSUE****Statewide Plan Update - One-Time Authority**

This project is a major capital improvement project intended to restore the Lincoln Airport runway pavement to federal standards and not for routine or regularly recurring maintenance. As such, the legislature may wish to designate this funding as one time only in addition to biennial as requested by the executive. One-time-only funding would exclude this funding from the base for the 2007 biennium when it would not be needed.

Proprietary Rates**Program Description**

The West Yellowstone Airport provides a fly-in gateway to the town of West Yellowstone, Yellowstone Park, and surrounding US Forest Service area recreational opportunities. The airport is seasonal in its operation matching the peak tourist demand of the area from June 1 to September 30. The airport serves as an inter-agency fire control center with both smoke jumpers and fire retardant bombers located at the airport. The airport accomplishes these missions with extensive facilities to accommodate aircraft of various sizes. The airport terminal building has tenants that provide the following functions: cafe, gift shop, two car rental agencies, fixed based operation (FBO) serving general aviation, and Skywest Airlines. The operation of the West Yellowstone Airport is funded from an enterprise type proprietary fund.

Revenues and Expenses

Revenues for the operation of the West Yellowstone Airport are derived from landing fees, building space rental fees, fuel flowage fees, sales receipts, and non-aero rentals. Expenses from the fund are for personal services for 1.29 FTE and operating expenses such as janitorial supplies, insurance, and facility maintenance.

The fund equity continues to increase to fund airport maintenance activities and rehabilitation projects such as the major runway rehabilitation project requested for the 2005 biennium.

Historical and projected operating financial data is presented in the Report of Internal Services & Enterprise Funds 2005 Biennium for fund number 06007.

Rate Explanation

Fees for provided services are market based. There are no increases planned in the 2005 biennium for landing fees, building fees, fuel flowage fees, sales receipts, and non-aero rentals. Because this is an enterprise type proprietary fund, the legislature does not approve rates. Fees are presented for information only.

The program for the operation of the West Yellowstone Airport charges the following fees:

West Yellowstone Airport 2005 Biennium Rates			
Fee Description		Fiscal 2004 Fees	Fiscal 2005 Fees
Landing Fees - Scheduled Air Carriers		\$0.50/1000 lbs	\$0.50/1000 lbs
Landing Fees - Other Uses	11,000-31,250 lbs	\$25	\$25
Landing Fees - Other Uses	>31,250 lbs	\$0.80/1000 lbs	\$0.80/1000 lbs
Fuel Flowage Fees (0015)		\$0.06/gallon	\$0.06/gallon
Building Leases - Car Rental	per month	\$1.55/sq.ft.	\$1.55/sq.ft.
Building Leases - FBO's & Tours	per month	\$1.2975/sq.ft.	\$1.2975/sq.ft.
Building Leases - Airlines	per month	\$1.8908/sq.ft.	\$1.8908/sq.ft.
Building Leases - U/G Storage	per month	\$0.025/sq. ft.	\$0.025/sq. ft.
Building Leases - Hanger Ground	per year	\$0.05/sq.ft.	\$0.05/sq.ft.
Tax Transfer		\$15,000 est.	\$15,000 est.
Sales Receipts - Car Rental		10% of gross	10% of gross
Sales Receipts - Café/Gift Shop		5% of gross	5% of gross
Miscellaneous Sales		Various	Various
Non-Aero Rentals - Nevada Testing	per year	Prior yr + CPI-U	Prior yr + CPI-U
Non-Aero Rentals - City of WYS	per year	\$9,600/year	\$9,600/year
Non-Aero Rentals - Energy West	per year/acre	Prior yr + CPI-U	Prior yr + CPI-U

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	62.60	4.00	0.00	66.60	4.00	0.00	66.60	66.60
Personal Services	2,796,812	271,631	0	3,068,443	274,632	0	3,071,444	6,139,887
Operating Expenses	1,675,061	649,395	250,000	2,574,456	303,910	0	1,978,971	4,553,427
Equipment	19,274	0	0	19,274	0	0	19,274	38,548
Grants	3,793,592	2,668,750	0	6,462,342	2,668,750	0	6,462,342	12,924,684
Total Costs	\$8,284,739	\$3,589,776	\$250,000	\$12,124,515	\$3,247,292	\$0	\$11,532,031	\$23,656,546
General Fund	0	0	0	0	0	0	0	0
State/Other Special	1,567,357	1,348,748	50,000	2,966,105	980,359	0	2,547,716	5,513,821
Federal Special	6,717,382	2,241,028	200,000	9,158,410	2,266,933	0	8,984,315	18,142,725
Total Funds	\$8,284,739	\$3,589,776	\$250,000	\$12,124,515	\$3,247,292	\$0	\$11,532,031	\$23,656,546

Program Description

The Transportation Planning Division provides: 1) an inventory of transportation infrastructure to allocate funds, maintain Department of Transportation eligibility for grants and federal funds, and aid in the process of project prioritization and selection; 2) a statewide planning program and assistance to local area transportation planning; and 3) response to legislative or regulatory actions necessitating representation before courts, congressional hearings, the US Department of Transportation, the Surface Transportation Board, and others. This planning results in a program that includes buses for transit systems, street and highway improvements, railroad track rehabilitation, and transportation enhancements for non-motorized and beautification improvements.

Program Narrative

Department of Transportation Transportation Planning Division Major Budget Highlights	
○ Total fund budget is reduced by \$4.7 million or 16.6 percent for the biennium ○ Staffing is increased by 4.00 FTE ○ Weigh-in-motion and State Truck Activity Reporting System become ongoing ○ Transit capital assistance grants	
Major LFD Issues	
○ One-time funding for earmarked funds	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Transportation Planning Divisi

<u>Program Funding</u>	<u>Base</u> <u>Fiscal 2002</u>	<u>% of Base</u> <u>Fiscal 2002</u>	<u>Budget</u> <u>Fiscal 2004</u>	<u>% of Budget</u> <u>Fiscal 2004</u>	<u>Budget</u> <u>Fiscal 2005</u>	<u>% of Budget</u> <u>Fiscal 2005</u>
01100 General Fund	\$ -	-	\$ -	-	\$ -	-
02282 Fta Local Match	208,664	2.5%	399,865	3.3%	399,865	3.5%
02422 Highways Special Revenue	1,358,693	16.4%	2,566,240	21.2%	2,147,851	18.6%
03147 Fta Grants	1,928,986	23.3%	3,898,377	32.2%	3,898,467	33.8%
03407 Highway Trust - Sp Rev	4,788,396	57.8%	5,260,033	43.4%	5,085,848	44.1%
Grand Total	\$ 8,284,739	100.0%	\$ 12,124,515	100.0%	\$ 11,532,031	100.0%

The Transportation Planning Division is funded with a combination of state and federal special revenue funds. Transit grants are generally fully funded (100 percent) with Federal Transit Administration funds. However, if a match is required it is provided by the local entity receiving services or on a rare occasion with highways state special revenue funds. The remaining division activities are funded with federal planning and research funds and state special revenue funds at a ratio of 65 percent federal and 35 percent state special revenue for the 2005 biennium. State special revenue funds include nearly \$800,000 in local match pass-through authority for the 2005 biennium.

Present Law Adjustments

Present Law Adjustments	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					207,524					211,113
Vacancy Savings					(120,176)					(120,313)
Inflation/Deflation					2,704					3,147
Fixed Costs					465					465
Total Statewide Present Law Adjustments					\$90,517	\$94,412				
DP 5002 - Transportation Assistance for Disabled/Elderly	0.00	0	629,442	0	629,442	0.00	0	629,442	0	629,442
DP 5003 - Federal Transit Administration Section 5309	0.00	0	0	1,528,000	1,528,000	0.00	0	0	1,528,000	1,528,000
DP 5004 - Traffic Data Processing Software	0.00	0	49,188	150,812	200,000	0.00	0	49,188	150,812	200,000
DP 5005 - FTE/Operating for Weigh-in-Motion (WIM) and STARS	4.00	0	62,333	235,911	298,244	4.00	0	62,245	235,577	297,822
DP 5006 - Overtime and Differential	0.00	0	3,192	11,089	14,281	0.00	0	3,192	11,089	14,281
DP 5008 - TEA21 Federal Funding Increases	0.00	0	229,666	255,311	484,977	0.00	0	229,666	255,311	484,977
DP 5009 - Seasonal Contracted Services	0.00	0	11,328	35,476	46,804	0.00	0	10,448	32,446	42,894
DP 5010 - Travel Adjustment	0.00	0	6,303	20,291	26,594	0.00	0	6,336	20,400	26,736
DP 5011 - Senior/Disabled Vehicle Adjustment	0.00	0	30,981	53,597	84,578	0.00	0	30,981	53,597	84,578
DP 5012 - Federal Earmark and Other Contracted Services	0.00	0	68,664	274,657	343,321	0.00	0	0	0	0
DP 5013 - Equipment Rental	0.00	0	1,843	6,387	8,230	0.00	0	2,097	7,265	9,362
DP 5014 - Alternative Pay Plan Conversion	0.00	0	(52,559)	(112,653)	(165,212)	0.00	0	(52,559)	(112,653)	(165,212)
Total Other Present Law Adjustments										
	4.00	\$0	\$1,040,381	\$2,458,878	\$3,499,259	4.00	\$0	\$971,036	\$2,181,844	\$3,152,880
Grand Total All Present Law Adjustments					\$3,589,776	\$3,247,292				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5002 - Transportation Assistance for Disabled/Elderly - An increase of nearly \$1.3 million state special revenue for the biennium is requested to provide operating funds to counties, incorporated cities and towns, transportation districts or nonprofit organizations for transportation services for persons 60 years of age or older, and for persons with disabilities. Funding for this program is derived from a 25-cent fee collected on all vehicle registrations with the exception of trailers and semi-trailers. The fee revenue is deposited into the general fund and transferred to the disabilities transportation services state special revenue account by statutory direction of 61-3-321, MCA.

**LFD
ISSUE****Appropriation Exceeds Revenues From Fee**

The revenue estimates adopted by the Revenue and Transportation Committee indicates the revenue from the 25-cent fee would only provide \$230,613 in the 2005 biennium. As such, this appropriation appears to be several times as much as that needed to expend all available funds generated by the fee for this purpose.

With this, the legislature may wish to reduce this request to the level included in the revenue estimate.

DP 5003 - Federal Transit Administration Section 5309 - An increase of nearly \$3.1 million federal special revenue for the biennium is requested for transit capital assistance grants to local governments. The projects were submitted through and supported by the Montana congressional delegation. These federal funds would be used to construct transit facilities and the purchase of vehicles.

DP 5004 - Traffic Data Processing Software - Increases of roughly \$98,000 state special revenue and \$302,000 federal special revenue for the biennium are requested for contracted services to develop traffic data processing software. The software would collect, maintain, analyze, and report data such as volume data, vehicle classification data, weight data, speed data, and occupancy data collected from more than 4,000 sites and used by virtually all entities of the department. The software would replace obsolete systems currently functioning on the mainframe, which have functionality problems, are not fully supported by department resources, and are not adequately supported by the product vendor.

DP 5005 - FTE/Operating for Weigh-in-Motion (WIM) and STARS - Increases of nearly \$125,000 state special revenue and \$472,000 federal special revenue for the biennium are requested to provide funding for 4.00 FTE and operating costs to support the State Truck Activity Reporting System (STARS). The staff for the program would install, repair, maintain, calibrate, and manage weigh-in-motion (WIM) equipment located at more than 90 locations across the state and would process and manage WIM data from the equipment.

**LFD
COMMENT****STARS Pilot Program**

The 1999 and 2001 legislatures provided one-time-only appropriations for staffing and operating costs of a STARS pilot program. This funding allowed the department to install and maintain WIM equipment at 90 locations across the state and provide various vehicle weight enforcement projects to determine if the STARS program would provide a tool for enforcing commercial vehicle weight violations to minimize the impacts overweight vehicles have on Montana's highways.

To evaluate the effectiveness of this pilot program, the department collected data at the WIM sites for one year with no associated enforcement activities. Data was then collected at the same sites the next year while the department performed various vehicle weight enforcement activities. Data from both years is being evaluated to determine the effect of the weight enforcement activities in terms of achieving better weight compliance and corresponding impacts on pavement damage due to overweight vehicles. The department has not completed the program evaluation, but indicates preliminary data shows the program can be used to effectively enforce commercial weight compliance. Furthermore, the department indicates that the program would reduce pavement damage caused by overweight vehicles with an estimated annual savings of more than \$1 million. The final evaluation is scheduled to be completed December 2002.

DP 5006 - Overtime and Differential - Increases of \$6,384 state special revenue and \$22,178 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay plus associated benefits.

**LFD
COMMENT****Historical Expenditures**

The program has expended an average \$10,953 for overtime and differential pay, exclusive of benefits, from fiscal years 2000 through 2002. In the base year, the program expended \$12,418. With benefits added, the decision package amounts approximate base plus benefits.

DP 5008 - TEA21 Federal Funding Increases - Increases of \$459,000 state special revenue and \$511,000 federal special revenue are requested to provide training and grants for urban transit programs in Billings, Great Falls, and Missoula. Of the state special revenue, \$379,000 would come from local governments via pass-through funds specifically provided to match federal transit funds

DP 5009 - Seasonal Contracted Services - Increases of nearly \$22,000 in state special revenue funds and \$68,000 in federal special revenue for the biennium are requested for contracted services to complete the field road inventory. This will fund two temporary employees and travel expenses.

DP 5010 - Travel Adjustment - Increases of roughly \$13,000 state special revenue and \$41,000 federal special revenue for the biennium are requested to adjust travel to 2005 biennium anticipated amounts. Extended staffing vacancies during the base year, in units that travel extensively across the state as part of normal business processes, have left the base below the amount to provide for anticipated travel levels.

**LFD
COMMENT****Historical Travel Expenditures**

For the last three years, the travel expenditures of the program have declined from \$215,000 in fiscal 2000 to \$151,000 in fiscal 2002. Base travel expenditures are 20 percent below the most recent 3-year average for the program.

DP 5011 - Senior/Disabled Vehicle Adjustment - Increases of nearly \$62,000 state special revenue and \$107,000 federal special revenue for the biennium are requested to purchase vehicles for agencies that transport senior citizens and disabled individuals. Base expenditures were low due to purchased vehicles not meeting specifications and federal grants being under spent.

DP 5012 - Federal Earmark and Other Contracted Services - Increases of nearly \$69,000 state special revenue and \$275,000 federal special revenue are requested for fiscal 2004 to spend federal earmarked funds for erecting geological signs and for implementing a roadside animal detection system. In addition, a corridor study project called CANAMEX is in progress. These projects that began in fiscal 2002, cannot be completed until fiscal 2004. This adjustment provides authority to carry these projects to completion.

**LFD
ISSUE****Earmarked Funds - One-Time Authority**

This request would provide funding for projects that are earmarked for special short-term non-recurring projects. As such, the legislature may wish to designate this funding as one time only. One-time-only funding would exclude this funding from the base for the 2007 biennium when it would not be needed.

DP 5013 - Equipment Rental - This request would fund the program's share of proposed increases in the department's Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 5014 - Alternative Pay Plan Conversion - Reductions of \$105,118 state special revenue and \$225,306 federal special revenue are recommended to reduce operating expenses to fund the costs of the broadband pay plan increases given during fiscal 2002.

New Proposals										
Program	FTE	General	Fiscal 2004			Fiscal 2005				
			State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 5001 - Multimodal Transportation Corridor Tech Assist										
	50	0.00	0	50,000	200,000	250,000	0.00	0	0	0
	Total	0.00	\$0	\$50,000	\$200,000	\$250,000	0.00	\$0	\$0	\$0

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 5001 - Multimodal Transportation Corridor Tech Assist - Increases of \$50,000 state special revenue and \$200,000 federal special revenue are requested for contracted services from other state agencies, local government, and private sector entities to evaluate the impacts railroad branch line abandonment, declining rail traffic, and changes in railroad management would have on the Montana transportation system and Montana's economy.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	663.53	1.00	(18.50)	646.03	1.00	(22.00)	642.53	642.53
Personal Services	24,006,775	2,253,898	(721,385)	25,539,288	2,258,936	(836,149)	25,429,562	50,968,850
Operating Expenses	8,700,168	944,847	61,678	9,706,693	646,364	39,069	9,385,601	19,092,294
Equipment	93,435	0	0	93,435	0	0	93,435	186,870
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	6,375	0	0	6,375	0	0	6,375	12,750
Total Costs	\$32,806,753	\$3,198,745	(\$659,707)	\$35,345,791	\$2,905,300	(\$797,080)	\$34,914,973	\$70,260,764
General Fund	28,078,749	3,012,093	(659,707)	30,431,135	2,718,216	(797,080)	29,999,885	60,431,020
State/Other Special	424,485	124,671	0	549,156	128,678	0	553,163	1,102,319
Federal Special	2,328,482	43,635	0	2,372,117	33,835	0	2,362,317	4,734,434
Proprietary	1,975,037	18,346	0	1,993,383	24,571	0	1,999,608	3,992,991
Total Funds	\$32,806,753	\$3,198,745	(\$659,707)	\$35,345,791	\$2,905,300	(\$797,080)	\$34,914,973	\$70,260,764

Agency Description

The Department of Revenue (DOR) collects revenue from and enforces regulations for over 30 state taxes and fees. The department also regulates the sale and distribution of alcoholic beverages in the state. The department is organized into five core processes with overall agency direction and management coordinated from the Director's Office.

Agency Discussion

Department of Revenue Major Budget Highlights	
○ Total funds increase of 4.3 percent over the 2003 biennium with a general fund increase of 5.0 percent ○ Reduction of 21.00 FTE ○ Request includes a net increase of \$213,540 to discontinue the development of POINTS II and maintain POINTS I	
Major LFD Issues	
○ A request to fund an upgrade of Oracle for POINTS I is not supported by a needs assessment ○ Recommended results criteria and reporting for new compliance staff added in the August 2002 Special Session ○ Appraisal staff reductions - impacts on statutory duties	

POINTS

History

The 1997 legislature passed HB 188, which authorized state general obligation bonds for information technology projects during the 1999 biennium. HB 188 authorized \$14 million in bond authority for the department to develop an integrated revenue and tax system for income tax, unemployment insurance contributions, income tax modernization, and property tax integration. The project was named Process Oriented Integrated System with the acronym "POINTS".

In HB 15, the 1999 legislature provided \$18 million in additional bonding authority to complete the project and to realign the department's business processes.

Phased Approach

POINTS was being implemented through a phased approach:

- Phase I (POINTS I) built the shared infrastructure that supports data and common processes for all tax types. It replaced eight of the department's computerized management systems with five core modules (case management, registration, returns processing, accounting, and forms and correspondence), which were designed to support all tax types. POINTS I has been completed
- Phase II (POINTS II) was originally supposed to add modules for property, individual income, corporate, and natural resource taxes. In doing so, POINTS II would have replaced up to 15 of the department stand-alone management systems. The department has stopped development work on POINTS II and is in the process of closing out the project

Challenging Project

The development of POINTS and the organizational change to a process oriented organizational structure have proven to be challenging efforts for the department. Because POINTS is an integrated system intended to be developed to maintain information on taxpaying entities in a common structure that is shared for all different tax types, the department organizational structure was changed to more closely match this type of structure. Prior to POINTS, the department was structured in organizational units based on major tax types. Now the department is business process oriented and structured around integrated processes that administer the state tax revenues.

The change to the current organizational structure involved the following major tasks:

- Adjusting management structures and staff assignments
- Redesigning position duties
- Moving personnel among organizations and positions

At the same time, the department began a major information technology (IT) development project to provide POINTS using a consultant contract. The project has experienced the following significant challenges:

- High level of software coding deficiencies, many with significant system performance impacts
- Contract disputes
- Project delays
- Cost over-runs

Challenged Project and Subsequent IT Governance Changes

As stated, POINTS is an example of a recent IT system development project that has experienced significant challenges during its development. A cursory review of the project can attribute much of the problems to deficiencies in pre-development planning; contract specifications, documentation, and enforcement; and initial project management.²

Current Project Status

As stated, the project was developed in phases. POINTS I built the shared infrastructure that supports data and common processes for all tax types and was delivered by the contractor and accepted by the department in 1999. The department is currently using POINTS I to perform its daily business functions. Simultaneously, the department is engaged in a project to correct software coding defects that impact the performance of the system.

² POINTS was developed, funded, and initiated prior to the 2001 legislature passing SB 131, the Information Technology Act. The Information Technology Act changed accountability, governance, and planning requirements of state IT resources. The changes contained in SB 131 came out of an interim study by the Legislative Finance Committee aimed at addressing legislative concerns over projects such as POINTS. If POINTS were developed under the requirements of the Information Technology Act, many or most of the problems may have been avoided.

A defect is defined as software coding that does not perform the intended functions as designed. The department has set December 31, 2002, as the deadline for completing POINTS I software stabilization. POINTS I software stabilization will be complete, not when all software defects have been corrected, but when all defects that impact the ability of the system to complete essential business functions are corrected and tested. According to the department, this effort would stabilize the functionality of the POINTS I software system such that core business functions operate reliably and future defects can be corrected quickly.

Schedule Change - POINTS II Discontinued

The original schedule for the POINTS development project was to implement the property and income tax modules in 2000 and the corporation tax module in 2001. Contract disputes and delays impacted this schedule. Instead of proceeding with the property tax module, the department received funding from the 2001 legislature and upgraded the Computer Assisted Mass Appraisal System (CAMAS) for use in the most recently completed property reappraisal. The property tax module of POINTS was subsequently removed from the project and in November 2002 the department made a decision to stop the development of POINTS II all together. Currently, \$2.5 million of the original \$32.0 million bonding proceeds remain unspent.

POINTS Related Budget Items

The department's budget request for the 2005 biennium contains the following decision packages, totaling \$594,541, related to POINTS or the cancellation of the POINTS II development project:

- o Present law DP 203 in the Information Technology Program for an additional \$250,000 to upgrade POINTS Oracle operating system
- o New proposal DP 210 in the Information Technology Program for an additional \$600,000 to maintain POINTS I
- o Present law DP 804 in the Compliance Valuation and Resolution Program for \$131,000 to fund a maintenance agreement for CAMAS
- o New proposal DP 809 in the Compliance Valuation and Resolution Program for a reduction of \$386,459 to discontinue POINTS II

These decision packages are listed here to provide the legislature with a view of all POINTS related requests contained in the department's budget request. Detailed discussions are provided for each individual decision package in the respective program narratives. However, the legislature may wish to consider all requests together as it evaluates the department's budget request.

Impacts From Discontinuing POINTS II

The decision to discontinue development of POINTS II has changed the long-term nature of assumptions for providing the services of the department. The department has been organized with the assumption that an integrated management system would be used to process the daily business transaction and support department operations. The legislature may want to have the department explain how it plans to operate without the integrated functionality that would have been gained from POINTS II. As part of this discussion, the department should explain how the POINTS-related budget requests factor into this plan, as well as how the POINTS II decision will impact future operating costs of the department.

Personal Service Changes

Statewide adjustments for personal services for all programs of the department are divided into two adjustments shown separately on budget tables: 1) those to fully fund all authorized positions; and 2) those to apply a vacancy savings reduction. The adjustment to fully fund all authorized positions is intended to adjust program budgets to reflect the pay levels existing when the budget development "snapshot" was taken and also to adjust for legislative pay increases scheduled to occur between the time the snapshot was taken and when the budgets would be implemented. These adjustments are for both pay scale increases and health insurance increases funded by the state. Actual vacancy rates and position pay change decisions that occurred during the base year impact the statewide adjustments in amount and

percentage growth over the base. Figure 1 breaks the statewide personal services adjustments into causes for all programs funded in HB 2. The figure shows four categories that make up the adjustments: 1) adjustments because of the difference in pay hours between the base and fiscal 2004 (Hour Difference); 2) adjustments for pay matrix adjustments and health insurance increases in HB 13 of the 2001 legislature (HB 13); 3) impacts of actual vacancy rates in the base year (Vacancies); and 4) impacts because the base does not include additional FTE added during the August 2002 Special Session (New FTE August Special Session).

The information shown on Figure 1 shows how different factors contribute to the growth from the base to the budget request for personal services. For some programs, the information serves just to show why the budget grows while not identifying any factor that contributed more significantly to the growth. However, the figure shows that the legislature may be interested in further justification from the department with regard to the high relative contribution vacancies in the Information Technology Program have on the program's personal service budget growth. For reference, the program had a vacancy rate of 8.4 percent in fiscal 2002, which accounts for 8.6 percent of the growth between the base and the request for fiscal 2004. The legislature may wish to have the agency justify the need for full funding of Information Technology Program positions.

Factors the legislature may wish to consider for the Information Technology Program personal services budget are:

- o During the base year, the department was involved with the development of POINTS which should have placed a heavy demand on Information Technology Program staff, yet the program had an 8.4 percent vacancy rate
- o The department has discontinued POINTS II development for the 2005 biennium, so demand for program staff resources should drop
- o The department is requesting funds to hire contracted information technology resources because the programming skills of Information Technology Program staff, not workload capacity, do not match the department's skill needs.

Figure 1 Department of Revenue Personal Services Changes						
Program	Change Amount	Total Change	Hour Difference	Makeup of Change		
				HB 13	Vacancies	New FTE August Special Session
Director's Office (01)	\$ 106,664	5.3%	0.6%	2.7%	2.0%	0.0%
Information Technology (02)	231,879	13.6%	0.8%	4.2%	8.6%	0.0%
Resource Management (05)	140,344	8.4%	0.7%	3.8%	3.9%	0.0%
Customer Service Center (06)	461,009	12.6%	0.9%	6.0%	2.7%	3.0%
Compliance Valuation and Resolution (08)	2,367,068	15.8%	1.0%	6.0%	6.1%	2.8%

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget						
Agency Program	General Fund	State Spec.	Fed Spec.	Proprietary	Grand Total	Total %
Directors Office	\$ 4,359,775	\$ -	\$ 196,906	\$ 60,144	\$ 4,616,825	6.6%
Information Technology	5,931,378	-	366,730	128,490	6,426,598	9.1%
Resource Management	2,123,064	-	194,592	2,278,827	4,596,483	6.5%
Customer Service Center	8,153,717	713,507	1,756,398	1,525,530	12,149,152	17.3%
Compliance Valuation And Resolution	39,863,086	388,812	2,219,808	-	42,471,706	60.4%
Grand Total	\$ 60,431,020	\$ 1,102,319	\$ 4,734,434	\$ 3,992,991	\$ 70,260,764	100.0%

Biennium Budget Comparison

Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	664.53	(18.50)	646.03	664.53	(22.00)	642.53	663.53	642.53
Personal Services	26,260,673	(721,385)	25,539,288	26,265,711	(836,149)	25,429,562	49,134,524	50,968,850
Operating Expenses	9,645,015	61,678	9,706,693	9,346,532	39,069	9,385,601	17,947,586	19,092,294
Equipment	93,435	0	93,435	93,435	0	93,435	129,757	186,870
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	6,375	0	6,375	6,375	0	6,375	13,209	12,750
Total Costs	\$36,005,498	(\$659,707)	\$35,345,791	\$35,712,053	(\$797,080)	\$34,914,973	\$67,225,076	\$70,260,764
General Fund	31,090,842	(659,707)	30,431,135	30,796,965	(797,080)	29,999,885	57,555,923	60,431,020
State/Other Special	549,156	0	549,156	553,163	0	553,163	868,639	1,102,319
Federal Special	2,372,117	0	2,372,117	2,362,317	0	2,362,317	4,816,085	4,734,434
Proprietary	1,993,383	0	1,993,383	1,999,608	0	1,999,608	3,984,429	3,992,991
Total Funds	\$36,005,498	(\$659,707)	\$35,345,791	\$35,712,053	(\$797,080)	\$34,914,973	\$67,225,076	\$70,260,764

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 102 - Reduce Agency Support Functions-Policy Performance										
01	(5.00)	(265,605)	0	0	(265,605)	(5.00)	(264,995)	0	0	(264,995)
DP 210 - Discontinuing POINTS Phase II										
02	0.00	300,000	0	0	300,000	0.00	300,000	0	0	300,000
DP 504 - Reduce Agency Support Function-Resource Management										
05	(1.00)	(34,303)	0	0	(34,303)	(1.00)	(34,272)	0	0	(34,272)
DP 603 - Reduction of Computer Processing										
06	0.00	(90,000)	0	0	(90,000)	0.00	(90,000)	0	0	(90,000)
DP 606 - Treasury Offset Program										
06	0.00	27,000	0	0	27,000	0.00	18,000	0	0	18,000
DP 607 - Eliminate GenTran Maintenance Contract										
06	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
DP 805 - Eliminate Participation in External Organizations										
08	0.00	(12,600)	0	0	(12,600)	0.00	(12,600)	0	0	(12,600)
DP 806 - Reduction of Computer Replacements										
08	0.00	(140,000)	0	0	(140,000)	0.00	(140,000)	0	0	(140,000)
DP 807 - Eliminate MOU with Yellowstone County										
08	0.00	(14,000)	0	0	(14,000)	0.00	(14,000)	0	0	(14,000)
DP 808 - Reduction of Property Tax Services										
08	(9.50)	(406,791)	0	0	(406,791)	(13.00)	(531,695)	0	0	(531,695)
DP 809 - Discontinuing POINTS Phase II										
08	(3.00)	(176,391)	0	0	(176,391)	(3.00)	(210,068)	0	0	(210,068)
DP 8002 - Field Office Rent (Requires Legislation)										
08	0.00	177,983	0	0	177,983	0.00	207,550	0	0	207,550
Total	(18.50)	(\$659,707)	\$0	\$0	(\$659,707)	(22.00)	(\$797,080)	\$0	\$0	(\$797,080)

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	37.00	0.00	(5.00)	32.00	0.00	(5.00)	32.00	32.00
Personal Services	2,024,982	21,398	(252,345)	1,794,035	22,185	(251,735)	1,795,432	3,589,467
Operating Expenses	517,538	62,399	(13,260)	566,677	(74,381)	(13,260)	429,897	996,574
Equipment	15,392	0	0	15,392	0	0	15,392	30,784
Local Assistance	0	0	0	0	0	0	0	0
Total Costs	\$2,557,912	\$83,797	(\$265,605)	\$2,376,104	(\$52,196)	(\$264,995)	\$2,240,721	\$4,616,825
General Fund	2,526,235	(17,951)	(265,605)	2,242,679	(144,144)	(264,995)	2,117,096	4,359,775
State/Other Special	300	(300)	0	0	(300)	0	0	0
Federal Special	800	102,553	0	103,353	92,753	0	93,553	196,906
Proprietary	30,577	(505)	0	30,072	(505)	0	30,072	60,144
Total Funds	\$2,557,912	\$83,797	(\$265,605)	\$2,376,104	(\$52,196)	(\$264,995)	\$2,240,721	\$4,616,825

Program Description

The Director's Office provides management control, policy direction, strategic planning, and legal services to assist the tax and liquor programs in fulfilling their responsibilities. The legal services staff advise other program staff and handle tax appeals before the State Tax Appeal Board and state courts. The Director's Office also includes the Policy and Performance Management unit, the Tax Policy and Research unit, and the Office of Dispute Resolution.

The Policy and Performance Management unit supports the department's core processes and is responsible for coordinating the strategic development of operating policies, budgets, rules, performance management, change management, and strategic planning for the department. The Tax Policy and Research unit is responsible for estimating state revenue, coordinating Department of Revenue legislation and fiscal notes, reviewing all legislation related to revenue, and conducting revenue-related research. The Office of Dispute Resolution has consolidated the department's dispute resolution efforts, including tax and liquor appeals, into a single location and process.

Program Narrative

Department of Revenue Director's Office Major Budget Highlights	
o	General fund support is reduced by \$667,000 or 13.7 percent from the 2003 biennium through reductions of agency management support functions
o	5.00 FTE are eliminated

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Directors Office						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 2,526,235	98.8%	\$ 2,242,679	94.4%	\$ 2,117,096	94.5%
02110 Accommodation Tax Admin	300	0.0%	-	-	-	-
03928 Royalty Audit - Nrcf	800	0.0%	800	0.0%	-	-
03954 Uf Administrative Grants	-	-	102,553	4.3%	93,553	4.2%
06005 Liquor Division	30,577	1.2%	30,072	1.3%	30,072	1.3%
Grand Total	\$ 2,557,912	100.0%	\$ 2,376,104	100.0%	\$ 2,240,721	100.0%

Funding for the program comes primarily from the general fund. Other funding sources are proprietary fund and federal special revenue from federal unemployment insurance funds. The proprietary funding is from a direct appropriation of Liquor Division proprietary fund and is for the Liquor Division share of Director's Office support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				106,664					107,484
Vacancy Savings				(85,266)					(85,299)
Inflation/Deflation				5,589					5,608
Fixed Costs				56,810					(79,989)
Total Statewide Present Law Adjustments				\$83,797					(\$52,196)
Grand Total All Present Law Adjustments				\$83,797					(\$52,196)

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 102 - Reduce Agency Support Functions-Policy Performance										
01	(5.00)	(265,605)	0	0	(265,605)	(5.00)	(264,995)	0	0	(264,995)
Total	(5.00)	(\$265,605)	\$0	\$0	(\$265,605)	(5.00)	(\$264,995)	\$0	\$0	(\$264,995)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 102 - Reduce Agency Support Functions-Policy Performance - The executive recommends a reduction of \$530,600 general fund for the biennium to reduce funding for 5.00 FTE. Functions in the department associated with the staff being eliminated are change management, performance management, management specialist, and strategic planning. The duties of these positions would be consolidated under one remaining position and according to the department, minimum requirements in goals and objectives, performance indicators, strategic plan development, and change management issues will be maintained.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	36.25	0.00	0.00	36.25	0.00	0.00	36.25	36.25
Personal Services	1,711,360	154,170	0	1,865,530	154,437	0	1,865,797	3,731,327
Operating Expenses	793,176	355,707	300,000	1,448,883	113,118	300,000	1,206,294	2,655,177
Equipment	20,047	0	0	20,047	0	0	20,047	40,094
Total Costs	\$2,524,583	\$509,877	\$300,000	\$3,334,460	\$267,555	\$300,000	\$3,092,138	\$6,426,598
General Fund	2,078,658	708,192	300,000	3,086,850	465,870	300,000	2,844,528	5,931,378
Federal Special	374,214	(190,849)	0	183,365	(190,849)	0	183,365	366,730
Proprietary	71,711	(7,466)	0	64,245	(7,466)	0	64,245	128,490
Total Funds	\$2,524,583	\$509,877	\$300,000	\$3,334,460	\$267,555	\$300,000	\$3,092,138	\$6,426,598

Program Description

The Information Technology Program is responsible for planning, coordinating, delivering, and controlling information resources for the department. The program is responsible for managing all computing services provided to the department, including integrating and managing desktop, mid-tier, and mainframe applications as well as network support services.

Program Narrative

Department of Revenue Information Technology Program Major Budget Highlights
○ Total fund budget increases by \$1.4 million or 26.7 percent with general fund increasing by \$1.6 million or 36.5 percent ○ POINTS II development is discontinued
Major LFD Issues
○ Needs assessment for upgrading POINTS I Oracle system ○ IT staff skill set and contractor support ○ Impacts from discontinuing POINTS II

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Information Technology						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 2,078,658	82.3%	\$ 3,086,850	92.6%	\$ 2,844,528	92.0%
03954 Ui Administrative Grants	374,214	14.8%	183,365	5.5%	183,365	5.9%
06005 Liquor Division	71,711	2.8%	64,245	1.9%	64,245	2.1%
Grand Total	\$ 2,524,583	100.0%	\$ 3,334,460	100.0%	\$ 3,092,138	100.0%

The Information Technology Program is funded with general fund, federal special revenue, and proprietary funds. The federal special revenue funding comes from reimbursements for administering unemployment insurance taxes. The proprietary funding is from a direct appropriation of Liquor Division proprietary fund and is for the Liquor Division share of Information Technology Program support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				231,879					232,180
Vacancy Savings				(77,709)					(77,743)
Inflation/Deflation				4,993					5,137
Fixed Costs				100,714					107,981
Total Statewide Present Law Adjustments				\$259,877					\$267,555
DP 203 - Oracle Upgrade for POINTS (Restricted/Bien/OTO)	0.00	250,000	0	0	250,000	0.00	0	0	0
Total Other Present Law Adjustments	0.00	\$250,000	\$0	\$0	\$250,000	0.00	\$0	\$0	\$0
Grand Total All Present Law Adjustments				\$509,877					\$267,555

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 203 - Oracle Upgrade for POINTS (Restricted/Bien/OTO) - An increase of \$250,000 general fund in fiscal 2004 is requested to support POINTS upgrade efforts tied to anticipated Oracle database software upgrades. The last upgrade associated with Oracle version upgrades occurred in fiscal 2001 and is not included in the base. This request is based on the assumption that Oracle software upgrades would occur every two to three years. The executive recommends that the legislature designate an appropriation for this purpose as restricted, biennial, and one-time-only.

**LFD
ISSUE****Assumed Need to Upgrade to the Latest Version of Oracle**

This request assumes that an upgrade of Oracle would occur in the 2005 biennium. The request further assumes that if an Oracle upgrade occurs, POINTS should be upgraded to this new version of Oracle. The department hasn't provided an assessment to determine whether upgrading the software to the latest Oracle version adds sufficient benefits to justify the cost. Since this decision package is for anticipated costs that aren't supported by a needs analysis at this time, the legislature may wish to restrict the appropriation and specify conditions for its use. Conditions could include the requirement that the department perform a needs assessment for moving to an upgraded version of Oracle. The needs assessment should evaluate the costs, risks, and benefits of upgrading to the latest Oracle version as compared with continuing to operate POINTS with the current version of Oracle. The legislature may also wish to direct the department to present the needs assessment to an appropriate interim oversight committee for comment.

New Proposals

Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
OP 210 – Discontinuing POINTS Phase II 02	0.00	300,000	0	0	300,000	0.00	300,000	0	0	300,000
Total	0.00	\$300,000	\$0	\$0	\$300,000	0.00	\$300,000	\$0	\$0	\$300,000

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 210 - Discontinuing POINTS Phase II – An increase of \$600,000 general fund for the biennium is requested to maintain POINTS I. Of this request, \$500,000 would be used to fund five full-time consultant and professional information technology (IT) staff and increased mid-tier service charges paid to the Information Technology Services Division of the Department of Administration. The contracted IT staff would provide a skill set not possessed by department IT staff. The number of contracted staff represents a decrease of seven from the level funded in fiscal 2002 with bonding funds and, as such, is not included in the base. The remaining \$100,000 would fund anticipated mid-tier service charges that are not in the base because they were funded with bonding proceeds as part of POINTS development.

**LFD
ISSUE****Department IT Staff Skills**

The department has 16 programmer analysts and 2 IT managers. Of the department IT staff, 11 programmers and 1 manager are assigned to POINTS maintenance. The department has stated the need to use contracted IT staff is because the skill sets of department IT staff do not match the skill sets needed by the department. The department did not state the contracted staff were needed because of a workload issue. As such, the legislature may wish to consider the following options for this request:

- Do not fund the request for contracted IT staff and have the department estimate costs of providing training to existing staff that would allow them to gain the skills needed by the department
- Reduce department IT staff to fund the cost of contracted IT staff that have the skill sets needed by the department
- Fund the request as presented.

Earlier, it was stated that the Information Technology Program had a vacancy rate in fiscal 2002 of 8.4 percent or roughly 1.5 FTE. The legislature may wish to ask the department how the POINTS development project impacted the IT staff vacancy rate. The legislature may also wish to ask the department if it filled vacant positions with applicants that possessed the skills needed by the department how much of this request could be eliminated.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	39.50	0.00	(1.00)	38.50	0.00	(1.00)	38.50	38.50
Personal Services	1,679,893	67,535	(31,651)	1,715,777	69,573	(31,620)	1,717,846	3,433,623
Operating Expenses	560,745	(21,317)	(2,652)	536,776	(15,641)	(2,652)	542,452	1,079,228
Equipment	41,816	0	0	41,816	0	0	41,816	83,632
Capital Outlay	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$2,282,454	\$46,218	(\$34,303)	\$2,294,369	\$53,932	(\$34,272)	\$2,302,114	\$4,596,483
General Fund	1,172,470	(77,395)	(34,303)	1,060,772	(75,906)	(34,272)	1,062,292	2,123,064
Federal Special	0	97,296	0	97,296	97,296	0	97,296	194,592
Proprietary	1,109,984	26,317	0	1,136,301	32,542	0	1,142,526	2,278,827
Total Funds	\$2,282,454	\$46,218	(\$34,303)	\$2,294,369	\$53,932	(\$34,272)	\$2,302,114	\$4,596,483

Program Description

The Resource Management Program provides service and support to the department by integrating the human resources, accounting, facilities management, communications, and training and education functions of the department. The Liquor Distribution Unit is managed in this program.

Program Narrative

Department of Revenue Resource Management Program Major Budget Highlights

- General fund is reduced by \$221,000 or 9.4 percent below the 2003 biennium
- 1.00 FTE is eliminated

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Resource Management						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,172,470	51.4%	\$ 1,060,772	46.2%	\$ 1,062,292	46.1%
03954 Uj Administrative Grants	-	-	97,296	4.2%	97,296	4.2%
06005 Liquor Division	1,109,984	48.6%	1,136,301	49.5%	1,142,526	49.6%
Grand Total	\$ 2,282,454	100.0%	\$ 2,294,369	100.0%	\$ 2,302,114	100.0%

The Resource Management Program is funded by the general fund, federal special revenue, and proprietary funds. The proprietary funding is from a direct appropriation of Liquor Division proprietary fund and is for the Liquor Division share of Resource Management Program support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund. The federal special revenue funding comes from reimbursements for administering

unemployment insurance taxes. There was no funding from this source in the base, but federal funding for the 2005 biennium would reduce general fund by \$194,592.

The Liquor Distribution Unit is funded with a direct appropriation of Liquor Division proprietary fund. Net revenues from liquor sales are transferred to the general fund once operating costs are deducted from gross revenues.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					140,344					142,466
Vacancy Savings					(72,809)					(72,893)
Inflation/Deflation					3,775					4,240
Fixed Costs					(25,092)					(19,881)
Total Statewide Present Law Adjustments					\$46,218					\$53,932
Grand Total All Present Law Adjustments					\$46,218					\$53,932

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 504 - Reduce Agency Support Function-Resource Management										
05	(1.00)	(34,303)	0	0	(34,303)	(1.00)	(34,272)	0	0	(34,272)
Total	(1.00)	(\$34,303)	\$0	\$0	(\$34,303)	(1.00)	(\$34,272)	\$0	\$0	(\$34,272)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 504 - Reduce Agency Support Function-Resource Management - The executive recommends a reduction of \$68,575 general fund for the biennium to reduce funding for 1.00 FTE training officer. The duties of this position would be consolidated under two remaining training officer positions.

Language Recommendations

The executive recommends the following language appropriations for the Resource Management Division.

"Liquor division proprietary funds necessary to maintain adequate inventories, pay freight charges, and transfer profits and taxes to appropriate accounts are appropriated from the liquor enterprise fund (06005) to the department in amounts not to exceed \$67,588,169 in fiscal year 2004 and \$70,782,541 in fiscal year 2005."

"In the liquor division, upon a termination that requires a payout of accrued leave balances, liquor division proprietary funds are appropriated from the liquor enterprise fund (06005) to the department in the amount equal to the payout of the accrued leave balances, not to exceed \$30,000 for each of fiscal years 2004 and 2005."

"In the event the department is unable to meet statutory service levels due to the increase in demand for liquor products, the department is allowed to hire additional temporary employees or pay overtime, whichever is determined to be the more cost effective, to maintain required service levels to stores. The department is appropriated from the liquor enterprise fund (06005) for additional costs not to exceed \$40,000 for each of fiscal years 2004 and 2005."

**LFD
COMMENT****Alternate Language**

The above language could be made clearer through the following alternate language, which the legislature may wish to consider:

"In the event the department is unable to meet statutory service levels due to the increase in demand for liquor products, the department may hire additional temporary employees or pay overtime, whichever is determined to be the more cost effective, to maintain required service levels to stores. In fiscal year 2004 and in fiscal year 2005, the department is appropriated not more than \$40,000 each year for additional costs from the liquor enterprise fund."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	119.00	1.00	0.00	120.00	1.00	0.00	120.00	120.00
Personal Services	3,647,992	336,106	0	3,984,098	338,914	0	3,986,906	7,971,004
Operating Expenses	2,030,746	142,433	(88,000)	2,085,179	159,223	(97,000)	2,092,969	4,178,148
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$5,678,738	\$478,539	(\$88,000)	\$6,069,277	\$498,137	(\$97,000)	\$6,079,875	\$12,149,152
General Fund	3,798,469	361,447	(88,000)	4,071,916	380,332	(97,000)	4,081,801	8,153,717
State/Other Special	239,943	116,454	0	356,397	117,167	0	357,110	713,507
Federal Special	877,561	638	0	878,199	638	0	878,199	1,756,398
Proprietary	762,765	0	0	762,765	0	0	762,765	1,525,530
Total Funds	\$5,678,738	\$478,539	(\$88,000)	\$6,069,277	\$498,137	(\$97,000)	\$6,079,875	\$12,149,152

Program Description

The Customer Service Center Program (CSC) combines the document and information processing, accounts receivable and collections, and customer intake processes into a single business unit designed to collect revenue, process documents, provide taxpayer information, and process liquor licenses for the department and agency partners. The CSC provides a single point of contact for debtors and is responsible for delinquent account collection and enforcement activities.

Program Narrative

Department of Revenue Customer Service Center Major Budget Highlights	
○ General fund is increased by \$484,000 or 6.3 percent over the 2003 biennium ○ 1.00 FTE funded with state special revenue is added ○ General fund revenue lift from Treasury Offset Program	
Major LFD Issues	
○ Results of new positions added during the August 2002 Special Session	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Customer Service Center						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 3,798,469	66.9%	\$ 4,071,916	67.1%	\$ 4,081,801	67.1%
02025 Unclaimed Property	99,910	1.8%	162,446	2.7%	162,336	2.7%
02088 One-Stop And New Hire Admin.	110,798	2.0%	161,500	2.7%	161,500	2.7%
02110 Accommodation Tax Admin	29,235	0.5%	27,451	0.5%	28,274	0.5%
02396 Sb354-Restaurant Beer & Wine	-	-	5,000	0.1%	5,000	0.1%
03680 New Hire Admin (Federal Share)	91,761	1.6%	92,400	1.5%	92,400	1.5%
03954 Ui Administrative Grants	785,800	13.8%	785,799	12.9%	785,799	12.9%
06005 Liquor Division	762,765	13.4%	762,765	12.6%	762,765	12.5%
06554 Customer Service Center	-	-	-	-	-	-
Grand Total	\$ 5,678,738	100.0%	\$ 6,069,277	100.0%	\$ 6,079,875	100.0%

The Customer Service Center is funded with general fund, state and federal special revenue, and proprietary funds. Liquor Division proprietary funds is for the Liquor Division share of Customer Service Center support costs. The allocation is based on FTE counts. Liquor Division proprietary funds are an indirect use of general fund since net liquor revenues, after operating costs are deducted, are deposited in the general fund.

The delinquent account collection and enforcement activities are funded with internal service proprietary funds and are not included in the budget tables for the program. The proprietary section of this program discusses funding for the delinquent account collection and enforcement activities and the rate requested to finance this internal service funded portion of the program.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				461,009					464,057	
Vacancy Savings				(164,349)					(164,479)	
Inflation/Deflation				77,722					77,921	
Fixed Costs				40,349					56,821	
Total Statewide Present Law Adjustments				\$414,731					\$434,320	
DP 602 - Restore OTO from 03B - Unclaimed Property Auditor	1.00	0	52,446	0	52,446	1.00	0	52,336	0	52,336
DP 604 - Compliance Staff Operating Costs	0.00	11,362	0	0	11,362	0.00	11,481	0	0	11,481
Total Other Present Law Adjustments	1.00	\$11,362	\$52,446	\$0	\$63,808	1.00	\$11,481	\$52,336	\$0	\$63,817
Grand Total All Present Law Adjustments				\$478,539					\$498,137	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 602 - Restore OTO from 03B - Unclaimed Property Auditor - An increase of nearly \$105,000 state special revenue for the biennium is requested to fund 1.00 FTE unclaimed property auditor and operating costs.

**LFD
COMMENT**

Funded in 2003 Biennium with One-Time-Only Appropriation

The 2001 legislature funded 1.00 FTE unclaimed property auditor, but designated the appropriation for this funding as one time only. One-time funding was provided to allow the department the opportunity to demonstrate need for this function and establish performance results that could be used to evaluate a request for continuation of funding.

The department has stated that during fiscal 2002, the unclaimed property auditor performed 39 audits with total collections of \$218,014. The department estimates that approximately 40.0 percent of the collections will be returned to the rightful owner leaving roughly \$131,000 as increased gross revenue to the state. After deducting the costs for the auditor, roughly \$87,000 increased revenues would be realized by the general fund each year

DP 604 - Compliance Staff Operating Costs - An increase of \$22,843 general fund for the biennium is requested for operating costs associated with 3.30 FTE compliance staff added during the August 2002 Special Session. Since the August 2002 Special Session occurred after the base year was completed, the operating costs for these positions are not in the base. The operating costs are for travel, rent, computer and telephone connection costs, and supplies.

**LFD
ISSUE**

Results from New Positions

The staff were added in the Senate as an amendment to HB 2 during the August 2002 Special Session. The basis for adding the staff was that the staff would result in additional audit related revenue to the general fund.

The legislature may wish to establish criteria and a periodic reporting mechanism for the department to update the legislature on the results achieved from the general fund expenditures for the new compliance staff.

As such, the legislature may wish to provide language in HB 2 that directs the department to provide updates of tax collections attributed to compliance staff activities. The legislature may wish to consider the following language for this purpose.

"The department of revenue shall present reports to the revenue and transportation committee that show the cost of tax compliance staff and the additional revenues generated from providing the associated tax compliance. The department shall identify the costs and revenues separately for the additional staff added during the August 2002 special legislative session. The revenue and transportation committee may determine the frequency for reporting by the department on compliance staff revenues."

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 603 - Reduction of Computer Processing										
06	0.00	(90,000)	0	0	(90,000)	0.00	(90,000)	0	0	(90,000)
DP 606 - Treasury Offset Program										
06	0.00	27,000	0	0	27,000	0.00	18,000	0	0	18,000
DP 607 - Eliminate GenTran Maintenance Contract										
06	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
Total	0.00	(\$88,000)	\$0	\$0	(\$88,000)	0.00	(\$97,000)	\$0	\$0	(\$97,000)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 603 - Reduction of Computer Processing - The executive recommends a reduction of \$180,000 general fund for the biennium for computer processing service charge payments to the Information Technology Services Division of the Department of Administration.

**LFD
COMMENT**
Off-Hour Processing Would Cause a Delay in Data Posting

The department has stated they would reduce these charges by running batch-processing jobs after business hours. According to the department, the main impact of this change would be a one-day delay in updating their databases.

DP 606 - Treasury Offset Program - An increase of \$45,000 general fund for the biennium is requested to participate in the Treasury Offset Program (TOP). Through the TOP the department would send a list of eligible taxpayers with delinquent state tax debts to the United States Treasury's Financial Management Service (FMS), where eligible federal tax refunds would be applied against the state tax debts.

**LFD
COMMENT**
Potential General Fund Revenue Lift

Based on results for other states participating in the program, the department estimates that participating in this program would increase net general fund revenue by \$505,000 for the 2005 biennium.

DP 607 - Eliminate GenTran Maintenance Contract - A reduction of \$50,000 general fund for the biennium is recommended to eliminate the maintenance contract for the GenTran software. The GenTran software is used to transfer federal withholding tax information from the MTQ 941 quarterly report to the IRS. In-house technology staff have been trained on the software and would be used to maintain it.

Proprietary Rates

Program Description

The Customer Services Center provides the collection services function that collects debt associated with delinquent accounts. The collection services function serves all state agencies and is funded through a service charge for collecting on delinquent accounts.

Revenues and Expenses

The department charges a 10.0 percent commission to provide collection services on delinquent accounts. These funds are used to pay the expenses of the Collection Services Program, including 3.50 FTE. Personal services costs account for approximately 84.0 percent of program costs. The remaining costs are related to rent, computer access and processing, and a percentage of the statewide fixed costs allocated to this function.

Historical and projected revenues, expenses, and fund equity are shown on the following report for fund number 06554. This report shows that in fiscal 2003, \$400,000 of excess fund balance was transferred out. The fund balance that was transferred was the result of using a general fund supplemental appropriation to retire a general fund loan instead of drawing down fund balance and was done when all but the Collection Services Program was moved from proprietary funding to funding in HB 2. This transfer was done in the August 2002 Special Session through HB 13 that transferred excess fund balance to the general fund. After this transfer, the balance of the account was equivalent to 16.7 percent of fiscal 2002 expenditures. The report also illustrates the change made during the 2001 legislature to move all of the Customer Service Center except the Collection Services Program from proprietary funding to HB 2 funding as indicated by the stepped decrease in revenues and expenditures between fiscal years 2001 and 2002.

Rate Explanation

The accounts receivable commission is currently 10 percent of the amount of delinquent accounts collected by the program. The executive does not recommend a change in this commission rate and requests continued approval of this 10 percent commission rate for the 2005 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06554	Collection Services	58010	Department of Revenue	Customer Service Center

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Charges for Services	6,339,077	5,931,121	128,437	140,000	145,000	145,000
Net Fee Revenue			128,437	140,000	145,000	145,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	87	263	-	-	-	-
Total Operating Revenues	6,339,164	5,931,384	128,437	140,000	145,000	145,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	6,339,164	5,931,384	128,437	140,000	145,000	145,000
Operating Expenses:						
Personal Services	4,906,824	4,416,758	96,642	115,979	116,862	116,567
Other Operating Expenses	2,329,784	2,600,288	1,344	24,021	23,074	24,834
Miscellaneous, operating	63,063	45,282	74,807	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	7,299,671	7,062,328	172,793	140,000	139,936	141,401
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	7,299,671	7,062,328	172,793	140,000	139,936	141,401
Operating Income (Loss)	(960,507)	(1,130,944)	(44,356)	-	5,064	3,599
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(21,632)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(21,632)	-	-	-	-
Income (Loss) Before Operating Transfers	(960,507)	(1,152,576)	(44,356)	-	5,064	3,599
Contributed Capital	533,364	533,364	-	-	-	-
Operating Transfers In (Note 13)	-	2,812,316	-	-	-	-
Operating Transfers Out (Note 13)	(345,756)	(343,535)	(104,291)	(400,000)	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	24,550	(1,265,242)	634,495	485,848	85,848	90,912
Net Income (Loss)	(772,899)	1,849,569	(148,647)	(400,000)	5,064	3,599
Retained Earnings/Fund Balances - June 30	(748,349)	584,327	485,848	85,848	90,912	94,511
60 days of expenses (Total Operating Expenses divided by 6)	1,216,612	1,177,055	28,799	23,333	23,323	23,567
Accounts Receivables Commission			10%	10%	10%	10%

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	431.78	0.00	(12.50)	419.28	0.00	(16.00)	415.78	415.78
Personal Services	14,942,548	1,674,689	(437,389)	16,179,848	1,673,827	(552,794)	16,063,581	32,243,429
Operating Expenses	4,797,963	405,625	(134,410)	5,069,178	464,045	(148,019)	5,113,989	10,183,167
Equipment	16,180	0	0	16,180	0	0	16,180	32,360
Debt Service	6,375	0	0	6,375	0	0	6,375	12,750
Total Costs	\$19,763,066	\$2,080,314	(\$571,799)	\$21,271,581	\$2,137,872	(\$700,813)	\$21,200,125	\$42,471,706
General Fund	18,502,917	2,037,800	(571,799)	19,968,918	2,092,064	(700,813)	19,894,168	39,863,086
State/Other Special	184,242	8,517	0	192,759	11,811	0	196,053	388,812
Federal Special	1,075,907	33,997	0	1,109,904	33,997	0	1,109,904	2,219,808
Total Funds	\$19,763,066	\$2,080,314	(\$571,799)	\$21,271,581	\$2,137,872	(\$700,813)	\$21,200,125	\$42,471,706

Program Description

The Compliance Valuation and Resolution Program administers audits and appraisals to ensure the tax-paying entities are in compliance with laws. The program is responsible for consistent valuation of properties statewide for purposes of property taxation. The program is located throughout the state in eight regions.

Program Narrative

Department of Revenue Compliance Valuation and Resolution Program Major Budget Highlights	
○ General fund is increased by \$1.7 million or 4.4 percent over the 2003 biennium ○ 16.00 FTE reduction ○ Rent request is impacted by other legislation ○ Savings from discontinuing POINTS II	
Major LFD Issues	
○ Impacts of appraisal staff reductions ○ Results of new positions added during the August 2002 Special Session ○ Increases for CAMAS maintenance	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table						
Compliance Valuation And Resolution						
<u>Program Funding</u>	<u>Base</u>	<u>% of Base</u>	<u>Budget</u>	<u>% of Budget</u>	<u>Budget</u>	<u>% of Budget</u>
	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 18,502,917	93.6%	\$ 19,968,918	93.9%	\$ 19,894,168	93.8%
02110 Accommodation Tax Admin	96,833	0.5%	109,803	0.5%	113,097	0.5%
02320 Property Value. Improv. Fund	49,956	0.3%	49,956	0.2%	49,956	0.2%
02396 Sb354-Restaurant Beer & Wine	5,000	0.0%	-	-	-	-
02432 Oil & Gas Era	32,453	0.2%	33,000	0.2%	33,000	0.2%
03928 Royalty Audit - Nrcr	146,003	0.7%	180,000	0.8%	180,000	0.8%
03954 U Administrative Grants	<u>929,904</u>	<u>4.7%</u>	<u>929,904</u>	<u>4.4%</u>	<u>929,904</u>	<u>4.4%</u>
Grand Total	<u>\$ 19,763,066</u>	<u>100.0%</u>	<u>\$ 21,271,581</u>	<u>100.0%</u>	<u>\$ 21,200,125</u>	<u>100.0%</u>

The Compliance Valuation and Resolution Program is funded with general fund, state special revenue, and federal special revenue. State special revenue is from charges for administering several taxes. The program also receives federal special revenue as reimbursement for auditing unemployment insurance collections and for performing natural resource royalty audits.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				2,367,068					2,366,161
Vacancy Savings				(692,379)					(692,334)
Inflation/Deflation				90,938					119,537
Fixed Costs				95,201					116,759
Total Statewide Present Law Adjustments				\$1,860,828					\$1,910,123
DP 801 - Request for Leased Vehicles									
0.00	84,756	0	0	84,756	0.00	92,659	0	0	92,659
DP 803 - Compliance Staff Operating Costs									
0.00	69,230	0	0	69,230	0.00	69,590	0	0	69,590
DP 804 - Increase in Contract Costs for CAMA System									
0.00	65,500	0	0	65,500	0.00	65,500	0	0	65,500
Total Other Present Law Adjustments									
0.00	\$219,486	\$0	\$0	\$219,486	0.00	\$227,749	\$0	\$0	\$227,749
Grand Total All Present Law Adjustments				\$2,080,314					\$2,137,872

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 801 - Request for Leased Vehicles - An increase of \$177,415 general fund for the biennium is requested to lease an additional 21 vehicles from the State Motor Pool. Currently the department has 83 owned vehicles and 74 vehicles leased from the State Motor Pool. As a part of this request, the department would dispose of 21 of the agency owned vehicles, all of which would have been operated in excess of 100,000 miles at the time of replacement. Program personnel use the vehicles to perform field inspections, property appraisals, audits of in-state taxpayers, and for travel to training and meetings.

DP 803 - Compliance Staff Operating Costs - An increase of nearly \$139,000 general fund for the biennium is requested for operating costs associated with 10.00 FTE compliance staff added during the August 2002 Special Session. Since the August 2002 Special Session occurred after the base year was completed the operating costs for these positions are not in the base. The operating costs are for audit related travel, rent, computer and telephone connection costs, and supplies.

**LFD
ISSUE****Results from New Positions**

As with present law decision package 604 for the Customer Service Center, the staff were added in the Senate as an amendment to HB 2 during the August 2002 Special Session. The basis for adding the staff was that the staff would result in additional audit related revenue to the general fund. The legislature may wish to establish similar criteria and periodic reporting requirements for the staff added to this program as it does for the new staff in the Customer Service Center.

DP 804 - Increase in Contract Costs for CAMA System - An increase of \$131,000 general fund for the biennium is requested for cost increases to maintain the Computer Assisted Mass Appraisal System (CAMAS). The recent enhancements to CAMAS were made to support the recently completed property reappraisal cycle. The vendor supported maintenance costs for this proprietary software will increase by \$65,500 per year.

**LFD
ISSUE****Indirect Cost of POINTS**

CAMAS is a computerized management system operated by the department to administer property appraisals. A new property tax module of the Process Oriented Integrated System (POINTS) would have replaced this system during POINTS development. However, project delays and contract issues contributed to a decision by the department to postpone the development of the property tax module and request a \$219,100 general fund supplemental appropriation from the 2001 legislature to upgrade CAMAS. CAMAS was upgraded and used during the most recent property reappraisal cycle. It is this upgrade that has triggered the increased maintenance costs that are driving this request. Had the POINTS project been completed on schedule, upgrades to this system would not have been need and costs to upgrade and maintain this system could have been avoided.

The legislature may wish to consider the following factors when evaluating this decision package:

- Four years of increased support costs for CAMAS maintenance will exceed the costs that funded the system upgrades that are driving these higher maintenance costs
- The current reappraisal cycle for property within classes three, four, and ten is every six years
- The department has recently completed a reappraisal cycle (statutory deadline January 1, 2003)
- The department is recommending funding reductions to eliminate funding for 13.00 FTE over the biennium that would develop market and income models for the next reappraisal cycle

In light of these factors, the legislature may wish to ask the department for a cost/benefit comparison between maintaining CAMAS and only upgrading the system prior to the next property reappraisal cycle.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 805 - Eliminate Participation in External Organizations										
08	0.00	(12,600)	0	0	(12,600)	0.00	(12,600)	0	0	(12,600)
DP 806 - Reduction of Computer Replacements										
08	0.00	(140,000)	0	0	(140,000)	0.00	(140,000)	0	0	(140,000)
DP 807 - Eliminate MOU with Yellowstone County										
08	0.00	(14,000)	0	0	(14,000)	0.00	(14,000)	0	0	(14,000)
DP 808 - Reduction of Property Tax Services										
08	(9.50)	(406,791)	0	0	(406,791)	(13.00)	(531,695)	0	0	(531,695)
DP 809 - Discontinuing POINTS Phase II										
08	(3.00)	(176,391)	0	0	(176,391)	(3.00)	(210,068)	0	0	(210,068)
DP 8002 - Field Office Rent (Requires Legislation)										
08	0.00	177,983	0	0	177,983	0.00	207,550	0	0	207,550
Total	(12.50)	(\$571,799)	\$0	\$0	(\$571,799)	(16.00)	(\$700,813)	\$0	\$0	(\$700,813)

New Proposals
The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 805 - Eliminate Participation in External Organizations - The executive recommends a reduction of \$25,200 general fund for the biennium to eliminate payment of dues to the Federation of Tax Administrators (FTA).

DP 806 - Reduction of Computer Replacements - The executive recommends a reduction of \$280,000 general fund for the biennium by reducing personal computer and related hardware purchases.

DP 807 - Eliminate MOU with Yellowstone County - A reduction of \$28,000 general fund for the biennium is recommended to discontinue the memorandum of understanding between the department and Yellowstone County for startup costs related to the Geographic Information System. In the future the department will provide in-kind services rather than cash payment to Yellowstone County for work on the system. This adjustment continues a reduction that occurred in fiscal 2003 as part of the Governor's 17-7-140, MCA, reduction plan.

DP 808 - Reduction of Property Tax Services - A reduction of \$938,486 general fund for the biennium is recommended to eliminate funding for 9.50 FTE in fiscal 2004 and an additional 3.50 FTE in fiscal 2005, and operating expenses for payment of a service agreement to the Information Technology Services Division (ITSD) of the Department of Administration for geographic information system (GIS) support. This adjustment would eliminate positions that perform the following functions associated with the department's annual appraisal work:

- o Regional lead (1.00 FTE)
- o Industrial appraiser (1.00 FTE)
- o Appraisal specialist (3.00 FTE)
- o Property valuation specialist (1.00 FTE)
- o Appraisers (7.00 FTE)

This adjustment includes elimination of \$91,000 for payments to ITSD for GIS cadastral application and database support services.

**LFD
ISSUE****Impacts on Statutory Duties**

In an effort to meet general fund budget reductions imposed by the Governor's budget office, the department proposed this reduction of property tax services. According to the department, this reduction in staff and operational expenses would reduce property tax staffing levels to the lowest levels in the last ten years and would impact the department's ability to complete annual appraisal work and provide future reappraisals. The staff reductions associated with this adjustment would curtail many of the key reappraisal activities associated with market model and income model development.

The most recent statutory reappraisal would be completed by the beginning of the 2005 biennium. The next reappraisal of classes three, four, and ten properties isn't due until January 1, 2009. Because of the six-year reappraisal cycle, this staff reduction would not have the adverse impacts on the department as it would have in other biennia coinciding with a reappraisal cycle.

The legislature may wish to have the department present a plan for achieving its statutory appraisal and reappraisal duties with the reduced level of staff that would result from this reduction. The legislature may also wish to have the department identify the impacts this reduction would have on the abilities of the department to provide appraisal services with the reduced staffing levels, such as delays and impacts to local governments.

DP 809 - Discontinuing POINTS Phase II - A reduction of \$386,459 general fund for the biennium is recommended as a result of discontinuing development work on POINTS II. The reduction includes a reduction of \$168,180 to eliminate funding for 3.00 FTE who tested system changes in support of POINTS development. With this reduction 3.00 FTE would remain to test future system changes and defect remediation associated with POINTS I maintenance. The reduction would also reduce rent by \$218,280 when agency personnel who are currently housed in the old Helena National Guard armory building are relocated to available space at the liquor warehouse or other available space as the system development team is dismantled.

DP 8002 - Field Office Rent (Requires Legislation) - An increase of \$385,533 general fund for the biennium is requested for increases to rent payments made for space department staff occupy outside of Helena. For staff working outside of Helena, the department pays rent for county building office space and private office space where county space is not available.

**LFD
COMMENT****Fiscal 2003 Rent Rate Low Due to Subsidy**

State law 15-8-102, MCA, allows county commissioners to charge rent for space provided to Department of Revenue personnel in county buildings. This statute limits the rate for the rent payments to the level the Department of Administration (DOA) charges state agencies for space in state buildings. The department has stated they developed their request based on the assumption that the legislature would amend 15-8-102, MCA, through legislation expected to be introduced during the legislative session to freeze the rate counties can charge the department for rent in county buildings at the fiscal 2003 amount of \$4.881 per square foot per month.

When the 2001 legislature approved the 2003 biennium rental rates for DOA the rental rates were subsidized by \$1.87 million Capitol Land Grant Trust funds for the 2003 biennium. This subsidy resulted in the per square foot rental rates being artificially below the amounts DOA would have charged without the use of Capitol Land Grant Trust funds. For the 2005 biennium, DOA is requesting rental rates that are \$1.43 per square foot per month higher in fiscal 2004 and \$1.66 per square foot per month higher in fiscal 2005 than the fiscal 2003 rate that would establish as the rental rates for department use of county office space. If the legislation passes, the rate counties would be allowed to charge the department for rent would be lower than that charged to other state agencies. However, the department would be fully funded for rent payments. On the other hand, if the legislation doesn't pass and assuming the legislature approves the DOA rental rates as currently requested, counties could charge the same rent as DOA charges for state buildings. If this happens, the department would be under-funded for rent paid to counties. The department estimates that the funding deficit would be \$136,720 for the 2005 biennium.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	145.38	1.75	0.54	147.67	1.75	0.54	147.67	147.67
Personal Services	6,146,865	967,134	105,739	7,219,738	960,885	(247,230)	6,860,520	14,080,258
Operating Expenses	7,423,915	1,111,715	1,848,289	10,383,919	1,250,948	(224,800)	8,450,063	18,833,982
Equipment	462,735	(414,000)	0	48,735	(414,000)	0	48,735	97,470
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	23,313	0	0	23,313	0	0	23,313	46,626
Grants	0	0	0	0	0	0	0	0
Transfers	933,055	0	(382,018)	551,037	0	(382,169)	550,886	1,101,923
Debt Service	1,177,627	0	0	1,177,627	(1,145,577)	0	32,050	1,209,677
Total Costs	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$652,256	(\$854,199)	\$15,965,567	\$35,369,936
General Fund	4,195,717	439,722	(860,969)	3,774,470	488,722	(878,041)	3,806,398	7,580,868
State/Other Special	2,673,474	638,473	300,649	3,612,596	665,357	300,651	3,639,482	7,252,078
Federal Special	503,119	29,932	2,379,657	2,912,708	28,944	130,531	662,594	3,575,302
Capital Projects	933,055	11,542	(433,055)	511,542	18,369	(433,055)	518,369	1,029,911
Proprietary	7,862,145	545,180	185,728	8,593,053	(549,136)	25,715	7,338,724	15,931,777
Total Funds	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$652,256	(\$854,199)	\$15,965,567	\$35,369,936

Agency Description

The Department of Administration provides central services for state agencies in the following areas:

- Accounting and financial reporting
- Warrant writing
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- Consumer affairs
- State bonded indebtedness administration
- State treasury services
- Capitol complex building maintenance and security
- State financial institution oversight and regulation
- Montana State Lottery
- Insurance coverage and Tort Claims Act administration
- Information systems development, telecommunications, and data processing
- Personnel management and labor relations
- Purchasing and surplus property administration
- Duplicating, mail, and messenger services

The department also administers the state Long-Range Building Program and state employee group benefits program. The Board of Examiners, the State Tax Appeal Board, the Appellate Defender, the Public Employees' Retirement Board, and the Teachers' Retirement Board are attached to the department for administrative purposes only.

Agency Discussion

Department of Administration Major Budget Highlights
○ Proposes establishing an indirect cost pool for centralized service provided by the Administrative Financial Services Division for other programs and attached agencies that would save \$591,000 general fund for the biennium ○ Total fund budget increases 7.5 percent from the 2003 biennium to the 2005 biennium with an 8.2 percent reduction of general fund ○ Personal services increase by 2.29 FTE with: 1) 1.13 FTE eliminated; 2) 7.33 FTE moved to non-budgeted proprietary funding; and 3) 10.75 FTE added ○ A request related to public safety communications would add \$2.25 million federal funds for the biennium
Major LFD Issues
○ The budget for the Banking and Financial Division increases by 46 percent ○ Insurance rates increase by 84.0 percent for fiscal 2004 and 92.6 percent for fiscal 2005 over the fiscal 2002 level ○ Telemarketer funding change ○ Local government services funding ○ High fund balance in central stores proprietary fund

Indirect Cost Pool

The executive has proposed a funding shift to fund portions of the Director's Office and other centralized service functions of the Administrative Financial Services Division with proprietary funds via an indirect cost pool. These functions are currently funded with general fund and would be funded with internal service type proprietary funds derived from fees paid by all programs (and all funding sources) of the department and the Appellate Defender's Office. The indirect cost pool would fund the expenses of the Director's Office and other centralized functions that prepare agency budgets, coordinate fiscal notes, and pay bills for programs without dedicated accounting staff. General fund would be reduced due to utilization of other fund sources.

New proposal decision packages are included in all programs to implement this indirect cost pool proposal. Figure 1 summarizes the proposal and identifies the requested amounts and the corresponding decision package numbers for all programs. On the surface, it appears that this initiative would result in a general fund reduction of nearly \$914,000 for the biennium. However, other factors would reduce the savings to the general fund to just over \$591,000 for the biennium:

- Net revenues from the State Lottery are transferred to the general fund, so increasing lottery costs reduces the general fund transfer
- A portion of this indirect charge would be funded by programs currently funded with proprietary costs, increasing the amount they must collect. Since a portion of the proprietary revenue is from general funded programs, general fund will pay a portion of this increased cost

Instead of reviewing each proposal separately, the legislature may wish to consider all adjustments together as one inclusive proposal.

Figure 1
Summary of Costs for Establishing
Indirect Cost Pool for Centralized Services
2005 Biennium Amounts

Program	New Proposal DP Number	General Fund	State Special Revenue	Federal Special Revenue	Proprietary Funds			
					Lottery	Other	Total	
Adjustments to move funding from HB 2 to proprietary funding in the new internal service funded indirect cost pool								
03 - Administration and Financial Services Division	315	\$ (913,878)	\$ -	\$ -	\$ -	\$ -	\$ (913,878)	
03 - Administration and Financial Services Division	316	-	-	-	-	918,065	918,065	
Net increase during funding switch							\$ 4,187	
Adjustments to make payments to the new indirect cost pool								
Department of Administration								
03 - Administration and Financial Services Division	317	47,422	3,846	148	-	298	51,714	
03 - Administration and Financial Services Division	318	-	-	-	-	45,662	45,662	
04 - Architecture and Engineering Program	318	-	16,592	-	-	-	16,592	
06 - General Services Program	317	15,362	-	-	-	-	15,362	
06 - General Services Program	318	-	-	-	-	122,836	122,836	
07 - Information Technology Services Division	317	1,858	-	-	-	-	1,858	
07 - Information Technology Services Division	318	-	-	-	-	445,832	445,832	
14 - Banking and Financial Division	317	-	44,179	-	-	-	44,179	
15 - Montana State Lottery	317	-	-	-	51,443	-	51,443	
23 - State Personnel Division	317	16,108	380	-	-	-	16,488	
23 - State Personnel Division	318	-	-	-	-	23,570	23,570	
24 - Risk Management and Tort Defense	318	-	-	-	-	68,943	68,943	
37 - State Tax Appeal Board	317	8,262	-	-	-	-	8,262	
Appellate Defender	317	5,321	-	-	-	-	5,321	
Total adjustment to make payments to the indirect cost pool		\$ 94,333	\$ 64,997	\$ 148	\$ 51,443	\$ 707,141	\$ 918,062	
Increased general fund expense to make payments to the indirect cost pool								
Other proprietary funds (assumes general fund pays for 25 percent of revenues for the proprietary funds)		176,785						
Lottery increase		51,443						
Direct general fund increase		94,333						
Effective increased general fund payments to the indirect cost pool		\$ 322,561						
Effective general fund reduction to establish the indirect cost pool		\$ 591,317						

Personal Services

Statewide adjustments for personal services for all programs of the department are divided into two adjustments, shown separately on budget tables: 1) those to fully fund all authorized positions; and 2) those to apply a vacancy savings reduction. The adjustment to fully fund all authorized positions is intended to adjust program budgets to reflect the pay levels existing when the budget development snapshot was taken and also to adjust for pay plan increases scheduled to occur between the time the snapshot was taken and the budgets would be implemented. These adjustments are for both pay scale increases and employee health insurance increases paid by the state. Actual vacancy rates and position pay change decisions that occurred during the base year impact the statewide adjustments in amount and percentage growth over the base. Figure 2 breaks the statewide personal services adjustments into causes for all programs funded in HB 2. The figure shows four categories that make up the adjustments: 1) adjustments because of the difference in pay hours between the base and fiscal 2004 (Hour Difference); 2) adjustments for pay matrix adjustments and health insurance increases in the pay plan bill of the 2001 legislature (HB 13); 3) impacts of actual vacancies in the base year (Vacancies); and 4) impacts because the base included only a partial year of broadband pay plan increases (Broadband Pay Plan).

The broadband pay plan is an alternative classification and compensation system for state employees authorized by the legislature. (For a further discussion, see Volume 1 of the LFD Executive Budget Analysis.) When salary increases under the broadband plan are given during the base year, the higher salaries are used to develop the personal services budgets for the next biennium, in this case the 2005 biennium. However, if the salary increases are only effective for a portion of the base year, the difference between the base and the present law personal services budget is higher. The

broadband pay plan column of Figure 2 shows the portion of the increase due to these partial year broadband plan pay increases.

Figure 2
Department of Administration
HB 2 - Personal Services Changes

Program	Change Amount	Total Change	Makeup of Change			
			Hour Difference	HB 13	Vacancies	Broadband Plan
Admin Financial Services (03)	\$ 213,463	14.9%	1.5%	8.0%	1.6%	3.8%
Architectural & Engineering (04)	171,054	21.5%	0.7%	3.7%	17.1%	
General Services (06)	39,799	9.5%	1.1%	6.2%	2.2%	
Information Technology Services (07)	18,940	20.2%	0.3%	1.4%	8.5%	10.0%
Banking and Financial (14)	244,734	23.4%	1.6%	8.5%	8.3%	5.0%
Montana State Lottery (15)	110,897	8.8%	0.6%	3.4%	3.0%	1.8%
State Personnel (23)	157,900	17.4%	1.5%	8.2%	7.7%	
State Tax Appeal Board (37)	86,674	46.7%	0.7%	4.4%	41.6%	

The legislature may wish to consider the factors for the growth of personal services budgets when evaluating the statewide present law adjustments for the department. For example, when one of the factors shows a relatively high contribution to growth, as in the vacancies for the Architectural & Engineering and State Tax Appeal Board programs, the legislature may wish to justify the need for the positions in programs that show high levels of vacancies. For the State Tax Appeal Board, one factor would be the historical patterns of tax appeals that replicate the property tax reappraisal cycle. Since the Department of Revenue has just completed the most recent reappraisal cycle, a higher level of tax appeals would be expected for the 2005 biennium than for the 2003 biennium. This would result in higher workloads for the board and board staff and lower vacancies. Other change factors relate to Legislative Fiscal Division issues contained in the program narratives. For the Banking and Financial Program, an issue is identified for present law DP 1402, Financial Institution Examiner Career Ladder, and directly relates to the 5 percent growth identified in Figure 2 for the broadband plan.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget							
Agency Program	General Fund	State Spec.	Fed Spec.	Cap Projects	Proprietary	Grand Total	Total %
General Services Program	\$ 1,231,455	\$ -	\$ -	\$ 1,000,000	\$ -	\$ 2,231,455	6.3%
Admin Financial Serv Division	2,910,473	315,561	325,302	-	87,464	3,638,800	10.3%
Architecture & Engineering Pgm	-	2,441,348	-	29,911	-	2,471,259	7.0%
Information Tech Serv Division	313,158	-	3,250,000	-	-	3,563,158	10.1%
Banking And Financial Division	-	4,433,474	-	-	-	4,433,474	12.5%
State Personnel Division	2,416,245	61,695	-	-	-	2,477,940	7.0%
State Tax Appeal Board	657,087	-	-	-	-	657,087	1.9%
Montana State Lottery	-	-	-	-	15,844,313	15,844,313	44.8%
Governor Elect Program	50,000	-	-	-	-	50,000	0.1%
Grand Total	\$ 7,578,418	\$ 7,252,078	\$ 3,575,302	\$ 1,029,911	\$ 15,931,777	\$ 35,367,486	100.0%

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	145.38	1.75	0.54	147.67	1.75	0.54	147.67	147.67
Personal Services	6,146,865	967,134	105,739	7,219,738	960,885	(247,230)	6,860,520	14,080,258
Operating Expenses	7,423,915	1,111,715	1,848,289	10,383,919	1,248,498	(224,800)	8,447,613	18,831,532
Equipment	462,735	(414,000)	0	48,735	(414,000)	0	48,735	97,470
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	23,313	0	0	23,313	0	0	23,313	46,626
Grants	0	0	0	0	0	0	0	0
Transfers	933,055	0	(382,018)	551,037	0	(382,169)	550,886	1,101,923
Debt Service	1,177,627	0	0	1,177,627	(1,145,577)	0	32,050	1,209,677
Total Costs	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$649,806	(\$854,199)	\$15,963,117	\$35,367,486
General Fund	4,195,717	439,722	(860,969)	3,774,470	486,272	(878,041)	3,803,948	7,578,418
State/Other Special	2,673,474	638,473	300,649	3,612,596	665,357	300,651	3,639,482	7,252,078
Federal Special	503,119	29,932	2,379,657	2,912,708	28,944	130,531	662,594	3,575,302
Capital Projects	933,055	11,542	(433,055)	511,542	18,369	(433,055)	518,369	1,029,911
Proprietary	7,862,145	545,180	185,728	8,593,053	(549,136)	25,715	7,338,724	15,931,777
Total Funds	\$16,167,510	\$1,664,849	\$1,572,010	\$19,404,369	\$649,806	(\$854,199)	\$15,963,117	\$35,367,486

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 303 - Return to Federal Portion of State Fund Dividend										
03	0.00	0	0	100,000	100,000	0.00	0	0	100,000	100,000
DP 311 - Fund Switch 0.33 FTE - HB 2										
03	(0.33)	(16,745)	0	0	(16,745)	(0.33)	(16,696)	0	0	(16,696)
DP 315 - Indirect Cost Allocation - HB 2										
03	(6.00)	(456,981)	0	0	(456,981)	(6.00)	(456,897)	0	0	(456,897)
DP 317 - Indirect Cost Allocation - HB2										
03	0.00	23,698	1,922	74	25,694	0.00	23,724	1,924	74	25,722
DP 317 - Indirect Cost Allocation - HB 2										
06	0.00	7,677	0	0	7,677	0.00	7,685	0	0	7,685
DP 317 - Indirect Cost Allocation - HB 2										
07	0.00	929	0	0	929	0.00	929	0	0	929
DP 317 - Indirect Cost Allocation - HB 2										
14	0.00	0	22,078	0	22,078	0.00	0	22,101	0	22,101
DP 317 - Indirect Cost Allocation-HB2										
15	0.00	0	0	0	25,728*	0.00	0	0	0	25,715*
DP 317 - Indirect Cost Allocation-HB2										
23	0.00	8,056	190	0	8,246	0.00	8,052	190	0	8,242
DP 317 - Indirect Cost Allocation-HB2										
37	0.00	4,129	0	0	4,129	0.00	4,133	0	0	4,133
DP 318 - Indirect Cost Allocation - HB576										
04	0.00	0	8,298	0	8,298	0.00	0	8,294	0	8,294
DP 611 - Use Capitol Land Grant for Major Maintenance										
06	0.00	(419,857)	0	0	(852,912)*	0.00	(433,870)	0	0	(866,925)*
DP 614 - FTE for PeopleSoft Procurement Module										
06	0.50	33,130	0	0	33,130	0.50	29,771	0	0	29,771
DP 701 - Public Safety Communications (Biennial)										
07	3.00	0	0	2,250,000	2,250,000	3.00	0	0	0	0
DP 709 - Statewide Roadway Centerline GIS - HB 2										
07	0.00	0	0	29,583	29,583	0.00	0	0	30,457	30,457
DP 1404 - Restore OTO from '03 Biennium - 1.50 FTE										
14	1.50	0	66,925	0	66,925	1.50	0	66,782	0	66,782
DP 1407 - 4.00 FTE Bank Examiners										
14	4.00	0	198,384	0	198,384	4.00	0	197,603	0	197,603
DP 1508 - Professional Service Contracts (Rstrcted/Bien/OTO)										
15	0.00	0	0	0	160,000*	0.00	0	0	0	0
DP 2304 - Lease Rate for State Sponsored Daycare										
23	0.00	0	2,852	0	2,852	0.00	0	3,757	0	3,757
DP 2306 - Eliminate 1.13 vacant FTE										
23	(1.13)	(45,005)	0	0	(45,005)	(1.13)	(44,872)	0	0	(44,872)
Total	1.54	(\$860,969)	\$300,649	\$2,379,657	\$1,572,010*	1.54	(\$878,041)	\$300,651	\$130,531	(\$854,199)*

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	0	0	0	0	50,000	0	50,000	50,000
Total Costs	\$0	\$0	\$0	\$0	\$50,000	\$0	\$50,000	\$50,000
General Fund	0	0	0	0	50,000	0	50,000	50,000
Total Funds	\$0	\$0	\$0	\$0	\$50,000	\$0	\$50,000	\$50,000

Program Description

The Governor Elect Program pays start-up costs for the incoming Governor, as required by 2-15-221, MCA.

Program Narrative

Department of Administration Governor-Elect Program Major Budget Highlights
o \$50,000 general fund only in fiscal 2005

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Governor Elect Program				
Program Funding	Base Fiscal 2002	Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ -	\$ -	\$ 50,000	100.0%
Grand Total	-	-	\$ 50,000	100.0%

The Governor Elect Program is fully funded with general fund.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 201 - Governor-elect appropriation	0.00	0	0	0	0.00	50,000	0	0	50,000
Total Other Present Law Adjustments	0.00	\$0	\$0	\$0	0.00	\$50,000	\$0	\$0	\$50,000
Grand Total All Present Law Adjustments				\$0					\$50,000

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 201 - Governor-elect appropriation - The executive recommends \$50,000 general fund in fiscal 2005 for startup costs of a Governor-elect and their staff from the general election to inauguration in the event a new Governor is elected in the 2004 general election.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	31.92	1.75	(6.33)	27.34	1.75	(6.33)	27.34	27.34
Personal Services	1,435,246	216,453	(393,143)	1,258,556	213,824	(392,130)	1,256,940	2,515,496
Operating Expenses	452,632	54,071	45,111	551,814	30,333	44,259	527,224	1,079,038
Local Assistance	22,133	0	0	22,133	0	0	22,133	44,266
Grants	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$1,910,011	\$270,524	(\$348,032)	\$1,832,503	\$244,157	(\$347,871)	\$1,806,297	\$3,638,800
General Fund	1,774,799	140,340	(450,028)	1,465,111	120,432	(449,869)	1,445,362	2,910,473
State/Other Special	54,405	104,581	1,922	160,908	98,324	1,924	154,653	315,561
Federal Special	39,775	22,859	100,074	162,708	22,745	100,074	162,594	325,302
Proprietary	41,032	2,744	0	43,776	2,656	0	43,688	87,464
Total Funds	\$1,910,011	\$270,524	(\$348,032)	\$1,832,503	\$244,157	(\$347,871)	\$1,806,297	\$3,638,800

Program Description

The Administrative Financial Services Division consists of several units. The Director's Office is responsible for overall supervision and coordination of agency programs and administratively attached boards and agencies. The Legal Unit provides legal services to agency and administratively attached programs. The Accounting Bureau is the process owner of the financial portion of the Statewide Budgeting, Accounting, and Human Resource Systems (SABHRS), establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, processes warrants for all state agencies, and prepares the state Comprehensive Annual Financial Report (CAFR). The Management Support Bureau and Personnel function provides financial, budgeting, accounting, personnel, payroll, and data processing functions for the department. Local Government Services Bureau provides technical assistance and training to local government accounting and financial personnel and defines, reviews, and enforces auditing requirements for Montana's local governments. The Consumer Affairs Office advocates on behalf of Montana's consumers in matters of unfair or deceptive business actions.

Program Narrative

Department of Administration Administrative Financial Services Division Major Budget Highlights	
○ Total fund budget is reduced by 1.0 percent with general fund reduced \$442,040 or 13.2 percent from the 2003 biennium ○ Moves budgeted functions to a proprietary funded indirect cost pool ○ 6.33 FTE are transferred to proprietary funding ○ 1.75 FTE are added	
Major LFD Issues	
○ Telemarketer funding change ○ Local government services funding Major LFD Issue - 1 goes here	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table
Admin Financial Serv Division

<u>Program Funding</u>	<u>Base</u> <u>Fiscal 2002</u>	<u>% of Base</u> <u>Fiscal 2002</u>	<u>Budget</u> <u>Fiscal 2004</u>	<u>% of Budget</u> <u>Fiscal 2004</u>	<u>Budget</u> <u>Fiscal 2005</u>	<u>% of Budget</u> <u>Fiscal 2005</u>
01100 General Fund	\$ 1,774,799	92.9%	\$ 1,465,111	80.0%	\$ 1,445,362	80.0%
02017 Montana Ia Disaster Fund - Nb	-	-	-	-	-	-
02140 Consumer Education Settlement	49,348	2.6%	155,851	8.5%	149,596	8.3%
02317 Financial Advisor Fees	5,057	0.3%	5,057	0.3%	5,057	0.3%
03320 Crmia Funds	17,642	0.9%	40,575	2.2%	40,461	2.2%
03369 Flood Control Payments	22,133	1.2%	22,133	1.2%	22,133	1.2%
03978 Federal Portion Of State Divid	-	-	100,000	5.5%	100,000	5.5%
06042 Single Audit Review - Hb328	-	-	-	-	-	-
06043 Local Gov'T. Audit & Systems	-	-	-	-	-	-
06527 Investment Division	41,032	2.1%	43,776	2.4%	43,688	2.4%
Grand Total	\$ 1,910,011	100.0%	\$ 1,832,503	100.0%	\$ 1,806,297	100.0%

The Administrative Financial Services Division is funded with general fund, state and federal special revenues, and proprietary funds. For the 2005 biennium, general fund would provide 80.0 percent of program funding while state special revenue would provide 8.7 percent, federal special revenue 8.9 percent, and proprietary funds the remaining 2.4 percent. State special revenue would primarily come from consumer education settlements with a smaller amount from financial advisor fees. Federal special revenue would be from federal Cash Management Improvement Act funds, flood control payments, and the federal portion of State Fund dividends. The division would also be funded with a direct appropriation of Board of Investments proprietary fund for services the Treasury Unit provides to the board.

**LFD
ISSUE**

Increase Fees to Fund Operations of Consumer Affairs Office

In the base year, the Consumer Affairs Office was funded 82 percent with general fund and 18 percent with state special revenue. For the 2005 biennium, this funding split has changed to 63 percent general fund and 37 percent state special revenue. The Consumer Protection Act requires telemarketers to register prior to conducting business in the state. However, telemarketers are not required to pay a fee to cover the cost of administering telemarketer registrations. In fiscal 2002, the telemarketer portion of the Consumer Affairs Office was funded 37 percent with general fund and 63 percent with state special revenue from consumer education settlements.

The legislature may wish to implement a telemarketer registration fee to cover the cost of the telemarketer program. If the entire telemarketer program were funded with state special revenue, the general fund would see additional savings of nearly \$83,000 for the 2005 biennium.

**LFD
ISSUE**

General fund Support for Local Government Services

The technical assistance and training provided by the Local Government Services bureau to local government accounting and financial personnel and the audit related services provided to local governments are funded with general fund. The legislature may wish to implement a fee for this service or deduct costs for these services from the entitlement payments provided to local governments. In fiscal 2002, the Local Government Services Bureau expended \$422,964 with funding from the general fund.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					213,463					210,926
Vacancy Savings					(65,948)					(65,845)
Inflation/Deflation					3,162					3,197
Fixed Costs					(21,977)					(27,386)
Total Statewide Present Law Adjustments					\$128,700					\$120,892
DP 301 - Rent Increase LGS -GF	0.00	6,333	0	0	6,333	0.00	6,460	0	0	6,460
DP 306 - Fund Burial Preservation Board	0.25	38,090	0	0	38,090	0.25	28,070	0	0	28,070
DP 307 - Increase FTE for Consumer Protection	1.50	0	77,290	0	77,290	1.50	0	71,111	0	71,111
DP 309 - Indirect Fixed Costs	0.00	(10,120)	30,213	18	20,111	0.00	(10,163)	30,219	18	20,074
DP 310 – Police Retirement Fund Reduction	0.00	0.00	0.00	0.00	0.00	0.00	(2,450)	0.00	0.00	(2,450)
Total Other Present Law Adjustments										
	1.75	\$34,303	\$107,503	\$18	\$141,824	1.75	\$21,917	\$101,330	\$18	\$123,265
Grand Total All Present Law Adjustments					\$270,524					\$244,157

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 301 - Rent Increase LGS -GF - An increase of \$12,793 general fund for the biennium is requested for rent increases for space the Local Government Services Bureau occupies in the old federal building in Helena. Rent in the old Federal Building is increasing because federal agencies are moving out of the building into the new Federal Office Building and Federal Courthouse. The federal agencies have been paying for the common areas and for at least one central conference room on each floor of the building. In the 2005 biennium, the state would occupy the entire building and would assume the cost for the common areas plus the conference rooms on each floor. The costs of the common areas and conference rooms will be allocated to tenant agencies and programs based on the ratio of used space to total used space.

DP 306 - Fund Burial Preservation Board - An increase of \$66,160 general fund for the biennium is requested to fund an additional 0.25 FTE administrative support and contracted services to hire hearings officers to support work under the Montana Repatriation Act. The board would provide a mechanism through which culturally affiliated human skeletal remains or funerary objects taken from burial sites would be returned to family members.

DP 307 - Increase FTE for Consumer Protection - An increase of \$148,401 consumer education settlement state special revenue for the biennium is requested to fund an additional 1.50 FTE and operating costs to address workload increases experienced enforcing the Consumer Protection Act. The staffing would be for 0.50 FTE paralegal and 1.00 FTE investigator.

DP 309 - Indirect Fixed Costs - An increase of \$40,185 for the biennium is requested for increases in department indirect and administrative costs for services received from other proprietary funded centralized service functions of the agency. Funding includes a reduction of \$20,283 general fund and increases of \$60,432 state special revenue and \$36 federal special revenue.

DP 310 - Police Retirement Fund Reduction - A reduction of \$2,450 general fund is recommended to remove funding in fiscal 2005 for an actuarial report on the Police Retirement Fund. The report is done only once a biennium so funding in fiscal 2005 would not be needed.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 303 - Return to Federal Portion of State Fund Dividend										
03	0.00	0	0	100,000	100,000	0.00	0	0	100,000	100,000
DP 311 - Fund Switch 0.33 FTE - HB 2										
03	(0.33)	(16,745)	0	0	(16,745)	(0.33)	(16,696)	0	0	(16,696)
DP 315 - Indirect Cost Allocation - HB 2										
03	(6.00)	(456,981)	0	0	(456,981)	(6.00)	(456,897)	0	0	(456,897)
DP 317 - Indirect Cost Allocation - HB2										
03	0.00	23,698	1,922	74	25,694	0.00	23,724	1,924	74	25,722
Total	(6.33)	(\$450,028)	\$1,922	\$100,074	(\$348,032)*	(6.33)	(\$449,869)	\$1,924	\$100,074	(\$347,871)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 303 - Return to Federal Portion of State Fund Dividend - An increase of \$200,000 federal special revenue for the biennium is requested so the department can return State Fund dividends to the Health and Human Services Federal Program through a warrant. The federal government has requested that the federal share of State Fund dividends received for state agencies with good workers' compensation claim experiences be returned through a warrant instead of the previous practice of reducing the draw of federal funds on individual programs by the amount of the State Fund dividend.

LFD ISSUE Restrict only for Workers' Compensation Dividend Refunds
The amount of any State Fund dividend and the potential for dividends to be provided are purely speculative at this time. Because of the uncertainty for dividends to occur, this request can be viewed as budget authority that is only needed if a certain circumstance occurs. As such, the legislature may wish to consider restricting this authority only for returning State Fund dividends to the federal government.

DP 311 - Fund Switch 0.33 FTE - HB 2 - A reduction of \$33,441 general fund for the biennium is recommended to switch funding for an existing 0.33 FTE from general fund to warrant writer proprietary fund. This funding switch would more closely tie the funding to the functions performed by the position.

DP 315 - Indirect Cost Allocation - HB 2 - A funding switch with a reduction of \$913,878 general fund for the biennium is recommended to fund portions of the Director's Office and the Management Support Bureau as an indirect cost pool with proprietary funds derived from charging an indirect cost rate to other programs of the department and administratively attached agencies and boards. This funding switch would remove funding in HB 2 for 6.00 FTE and associated operating costs. The indirect cost pool would fund the expenses of the Director's Office and other centralized functions that prepare agency budgets, coordinate fiscal notes, and pay bills for those programs without dedicated accounting staff.

LFD COMMENT Indirect Cost Pool
The August 2002 Special Session passed HB 21, which required agencies to fully recover indirect costs of federal assistance programs and private assistance. Costs of the Director's Office and the Management Support Bureau are costs that were previously funded with general fund but which are indirect costs eligible for reimbursements covered by HB 21. This decision package and decision packages in other programs of the department provide the funding change to allow the indirect costs to fund the functions of the program that support other programs of the agency and administratively attached agencies and boards. A further discussion is included in the agency section of this narrative.

DP 317 - Indirect Cost Allocation - HB2 - Increases of \$47,422 general fund, \$3,846 state special revenue, and \$148 federal special revenue are requested for the biennium to fund the division's share of the indirect cost pool formed in new proposal DP 315 of this program.

Language Recommendations

"Item 1 includes \$267,661 general fund in fiscal year 2004 and \$257,641 general fund in fiscal year 2005. In accordance with 17-2-108 MCA, the general fund is to be reduced by the amount of money received from nonfederal sources and the state special revenue increased by a like amount, as approved by the approving authority. Decision package 309 in the Consumer Affairs function within Administrative Financial Services requests a fund switch from state special revenue to general fund. In fiscal year 2002, the consumer protection counsel brought in \$526,000 to the general fund. "

LFD COMMENT

Suggested Language Wording Change

The legislature may wish to consider alternative language to the language provided by the executive. The last two sentences are editorial and add no legal value to the purpose of the language or the legislative intentions it requests.

More appropriate language would be:

"Item 1 includes \$267,661 in general fund money in fiscal year 2004 and \$257,641 in fiscal year 2005. The approving authority shall reduce general fund money and increase state special revenue by the amounts of money received from nonfederal sources received from consumer protection act settlements up to these amounts."

Proprietary Rates

Internal Service Funds

LFD COMMENT

The proprietary programs for the Accounting and Management Support Program are grouped into two categories: 1) internal service funds; and 2) enterprise funds. For the general appropriations act, Montana law specifies different legislative action for each category.

For internal service funds, the legislature establishes fiscal policy for the programs through its approval of the maximum rates programs may charge during the biennium. The legislature does this by reviewing the financial condition of the fund and the revenue and expenditure patterns of the program. The legislature reviews historical and planned operations of the program and approves rates that it determines provide financial support for the program at the level the legislature deems appropriate. The legislature also provides legislative policy direction for the program, including appropriateness of fund balances.

For enterprise funds, the legislature reviews earnings and contributed capital, projected operations and charges, and projected fund balances. The legislature does not approve the rates being charged, but provides legislative policy direction for the program, including appropriateness of charges and fund balances.

Legal Services Unit (Fund 06504)

Program Description

The Legal Services Unit advises all divisions within the department and those administratively attached to the department on legal matters. The unit receives funding from the general fund and through the legal services internal service fund. Only the portion of the unit funded by the internal service fund is discussed below. The general fund portion supporting 0.17 FTE is shown on the main budget tables and discussed in the HB 2 portion of the division narrative.

Revenues and Expenses

The Legal Services Unit receives revenues via an allocation of anticipated expenses of the unit to all non-general fund divisions of the department and administratively attached agencies and boards. The allocation is based on a time study

of work performed. In fiscal 2002, revenues of just over \$172,000 were received from the following funding sources in the percentages and approximate amounts shown:

- o State special revenue (18 percent), \$3,700
- o Proprietary funds (62 percent), \$127,300
- o Trust funds (20 percent), \$41,000

In fiscal 2002, revenues funded personal services for 1.58 FTE and operating costs. Personal services of approximately \$138,100 comprised 90.0 percent of expenses, with operating expenses making up the remaining \$15,000 or 10.0 percent of unit expenses.

Fiscal 2002 revenues and expenses show proportional increases that reflect the addition of 0.75 FTE that resulted when programs of the Department of Commerce were moved into the Department of Administration after the 2001 legislature passed SB 445. SB 445 reorganized the Department of Commerce and reassigned four of its programs to the Department of Administration. As a result, the Legal Services Unit increased to the current 1.58 FTE funded with proprietary funds. The revenues and expenses for the 2005 biennium assume legislative approval to fund an additional 0.50 FTE with this fund.

Allocation of Legal Services Unit anticipated costs is done during July of each fiscal year. Because collection is done once a year at the beginning of the year, rates are developed to only recover expenses on a breakeven basis. However, in fiscal 2002, expenses were over recovered by nearly \$20,000. The unit proposes to use these extra revenues to accumulate fund balance to offset a liability due to a large amount of accrued leave. The table for fund 06504 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06504	Legal Services	61010	Dept. of Administration	Legal Unit

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	91,024	91,143	172,409	179,024	149,097	149,097
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	91,024	91,143	172,409	179,024	149,097	149,097
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	91,024	91,143	172,409	179,024	149,097	149,097
Operating Expenses:						
Personal Services	88,521	91,334	138,067	126,810	144,046	143,615
Other Operating Expenses	8,861	7,934	14,688	22,154	19,810	20,208
Miscellaneous, operating	(75)	(4)	(29)	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	97,307	99,264	152,726	148,964	163,856	163,823
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	97,307	99,264	152,726	148,964	163,856	163,823
Operating Income (Loss)	(6,283)	(8,121)	19,683	30,060	(14,759)	(14,726)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(6,283)	(8,121)	19,683	30,060	(14,759)	(14,726)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	(18,325)	(22,602)	(30,723)	(11,040)	23,794	9,035
Adjustments to Beginning retained Earnings	2,006	-	-	4,774	-	-
Net Income (Loss)	(6,283)	(8,121)	19,683	30,060	(14,759)	(14,726)
Retained Earnings/Fund Balances - June 30	(22,602)	(30,723)	(11,040)	23,794	9,035	(5,691)
60 days of expenses (Total Operating Expenses divided by 6)	16,218	16,544	25,454	24,827	27,309	27,304

Rate Explanation

The financial objective of the Legal Services Unit is to operate on a break-even basis. The unit charges other non-general funded divisions in the department a percentage of its operations budget based on a time-use study. A fixed amount attributable to the percentage the service is used by a program is requested as the rate.

Figure 3A shows the historical and requested rates for the Legal Services Unit.

Figure 3A
Historical and Requested Rates
Legal Services Unit (Fund 06504)

Program	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Teachers' Retirement	20%	20%	\$ 20,071	\$ 20,071
Personnel Division	26%	26%	21,504	21,504
Risk Management & Tort Defense	2%	2%	1,434	1,434
General Services	7%	7%	5,018	5,018
Architecture & Engineering	18%	18%	15,770	15,770
Information Services	27%	27%	19,354	19,354
Consumer Affairs			35,841	35,841
Banking Division			8,602	8,602
Lottery			14,336	14,336
Local Government Services			7,168	7,168
			<u>\$ 149,098</u>	<u>\$ 149,098</u>

For the 2003 biennium, the approved rates were a percentage allocation of Legal Services Unit expenses.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Legal Services Unit expenses totaling \$60,837 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of the Legal Services Unit or to determine the impacts of changing the rate allocation methodology.

Adjustments included in the rate request are:

- A net increase totaling \$3,140 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$57,697 for the biennium for funding to add 0.50 FTE lawyer to the unit

Management Services Unit (Fund 06534)

Program Description

The Management Services Unit coordinates preparation of the department's biennial budget for submission to the Office of Budget and Program Planning (OBPP) and its presentation to the legislature, processes budget change documents on approved budgets through OBPP, and monitors approved budgets for compliance with state law and legislative intent. The unit also provides accounting assistance to the non-general funded divisions within the department.

Revenues and Expenses

In fiscal 2002, the Management Services Unit had revenues of nearly \$59,000 from fees paid by divisions of the department. These revenues were received from the following funding sources in the percentages and approximate amounts shown:

- General fund (10 percent), \$5,900
- State special revenue (40 percent), \$23,600
- Proprietary funds (50 percent), \$29,500

In fiscal 2002, revenues funded personal services for 1.00 FTE and operating costs. Personal services of about \$43,400 were nearly 87.0 percent of expenses, with operating expenses making up the remaining \$6,500 or roughly 13.0 percent of unit expenses. The unit was formed when programs of the Department of Commerce were moved into the Department of Administration through passage of SB 445 by the 2001 legislature. The table for fund 06534 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06534	Management Services	61010	Dept. of Administration	Management Support Bureau

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	-	-	58,737	49,512	503,219	503,126
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	-	-	58,737	49,512	503,219	503,126
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	-	-	58,737	49,512	503,219	503,126
Operating Expenses:						
Personal Services	-	-	39,787	44,850	421,922	420,825
Other Operating Expenses	-	-	6,498	6,000	92,316	93,523
Miscellaneous, operating	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	-	-	46,285	50,850	514,238	514,348
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	-	-	46,285	50,850	514,238	514,348
Operating Income (Loss)	-	-	12,452	(1,338)	(11,019)	(11,222)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	-	-	12,452	(1,338)	(11,019)	(11,222)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	-	-	-	8,843	12,831	1,812
Adjustments to Beginning retained Earnings	-	-	(3,609)	5,326	-	-
Net Income (Loss)	-	-	12,452	(1,338)	(11,019)	(11,222)
Retained Earnings/Fund Balances - June 30	-	-	8,843	12,831	1,812	(9,410)
60 days of expenses (Total Operating Expenses divided by 6)	-	-	7,714	8,475	85,706	85,725

Rate Explanation

In the 2003 biennium, the unit supported department budget functions for divisions and workload is driven by appropriation factors. As such the operations of the unit were financed with a rate based on a percentage of appropriations in divisions.

For the 2005 biennium, the executive proposes a funding switch that would move 6.00 FTE from HB 2 funding to funding from the management services proprietary fund. This proposal would form an indirect cost pool for functions of the Director's Office and other centralized services functions of the department. This proposal would increase both revenues and expenses of the fund. The adjustments to implement this proposal and the impacts on the requested rates are described below in more detail.

Figure 3B shows the requested 2005 biennium rates for the Management Services Unit.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Management Services Unit expenses totaling \$921,515 for the 2005 biennium.

Adjustments included in the rate request are:

- A net increase totaling \$3,450 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$918,065 to move existing 6.00 FTE from HB 2 funding to funding from the management services proprietary fund. This funding switch would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and a accounting/fiscal manager to an indirect cost pool. Expenses of the cost pool would be charged to all divisions of the department and to administratively attached boards and agencies. The indirect cost pool would share the costs of the Director's Office and would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

Figure 3B
Requested Rates
Management Services Unit (Fund 06534)

Program	Fiscal 2004	Fiscal 2005
Administrative Financial Services	\$ 48,662	\$ 48,713
Architecture & Engineering	8,298	8,294
General Services	69,111	69,088
Information Services	223,900	223,790
Personnel Division	20,034	20,026
Risk Management & Tort Defense	34,480	34,463
Banking Division	22,078	22,102
Lottery	25,728	25,715
State Tax Appeal Board	4,129	4,133
Appellate Defender	2,659	2,662
Totals	<u>\$ 459,079</u>	<u>\$ 458,986</u>

Network Support Unit (Fund 06560)

Program Description

The Network Support Unit administers all data processing functions of the department except those of the Information Technology Services Division. The unit installs software and hardware, responds to computer problems, and answers software questions. The unit also provides computer-programming services.

Revenues and Expenses

In fiscal 2002, the Network Support Unit had revenues of roughly \$175,000 from fees paid by divisions of the department. These revenues were received from the following funding sources in the percentages and approximate amounts shown:

- General fund (35.3 percent), \$61,800
- State special revenue (14.3 percent), \$25,000
- Proprietary funds (50.4 percent), \$88,200

Revenues from fees are received in July and August of each fiscal year, and the unit draws down this cash balance during the fiscal year to pay for operating expenses. In fiscal 2002 the division received \$22,000 more in revenues than expenses or 14.5 percent of annual expenses.

In fiscal 2002, revenues funded personal services for 3.50 FTE and operating costs. Personal services of nearly \$119,700 were roughly 79.0 percent of expenses, with operating costs making up the remaining \$31,600 or roughly 21.0 percent of unit expenses. Operating expenses are comprised of fixed costs, computer equipment, and software. During the 2003 biennium, 1.00 FTE was added when programs of the Department of Commerce were moved into the Department of Administration after SB 445 was passed by the 2001 legislature. The table for fund 06560 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06560	DP Unit Proprietary Fund	61010	Dept. of Administration	Management Support Bureau

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	118,220	115,283	175,258	179,282	139,335	139,053
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	118,220	115,283	175,258	179,282	139,335	139,053
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	118,220	115,283	175,258	179,282	139,335	139,053
Operating Expenses:						
Personal Services	91,672	93,617	119,682	121,693	144,274	143,924
Other Operating Expenses	19,351	17,389	33,620	28,721	37,211	37,842
Miscellaneous, operating	435	-	-	-	-	-
Miscellaneous, other	-	-	(54)	-	-	-
Total Operating Expenses	111,458	111,006	153,248	150,414	181,485	181,766
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	111,458	111,006	153,248	150,414	181,485	181,766
Operating Income (Loss)	6,762	4,277	22,010	28,868	(42,150)	(42,713)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	6,762	4,277	22,010	28,868	(42,150)	(42,713)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	12,693	5,418	6,395	28,405	60,945	18,795
Adjustments to Beginning retained Earnings	(14,037)	(3,300)	-	3,672	-	-
Net Income (Loss)	6,762	4,277	22,010	28,868	(42,150)	(42,713)
Retained Earnings/Fund Balances - June 30	5,418	6,395	28,405	60,945	18,795	(23,918)
60 days of expenses (Total Operating Expenses divided by 6)	18,576	18,501	25,541	25,069	30,248	30,294

Fee/Rate Information for Legislative Action:
Requested Rates for Internal Service Funds

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Support per computer	\$668	\$668	\$714	\$732	\$690	\$688

The financial objective of the Network Support Unit is to operate on a break-even basis. This unit charges other divisions in the department a fixed fee per computer to cover the costs of providing network support services, which it bills in July of each fiscal year to build up the working capital balance it requires. It charges a set fee per hour for computer programming, which it bills on an actual-hours-used basis.

Rate Explanation

For the 2003 biennium, fees were assessed on a per computer and server basis. However, the department is consolidating servers to be more cost effective. With the server consolidation, fees for the Network Support Unit would be assessed on a per user basis. Also, the additional users added as a result of SB 445 have increased the base of users. As such, fees for the 2005 biennium are reduced from those charged in the 2003 biennium. For reference, the unit charged \$714 per computer in fiscal 2002 and \$732 per computer in fiscal 2003. This was in addition to charges of

\$1,072 per server in fiscal 2002 and \$1,098 per server in fiscal 2003.

The executive recommends legislative approval of \$690 per user in fiscal 2004 and \$688 per user in fiscal 2005 as the maximum rates for the 2005 biennium.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Network Support Unit expenses totaling roughly \$6,442 for the 2005 biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department.

Warrant Writer Program (Fund 06564)

Program Description

The department provides the services of the Warrant Writer Program to most state agencies for check writing and automatic-deposit capabilities for financial transactions. The program produces and processes warrants and tracks them on the warrant writer system. The program generates, mails, tracks, and cashes each warrant. The services the program offers include direct deposit, warrant consolidation, stopping of payments, warrant cancellations, emergency warrants, duplicate warrants, warrant certification, warrant research, payee file data, and federal 1099-MISC processing.

The system handles about two million payment transactions per year. Payment transactions include warrant writing and electronic transfers for vendor payments, retirement payments for public employees and teachers, payroll, worker's compensation, income tax refunds, special refunds, and public assistance benefit payments. In addition, the program maintains a central payee file to facilitate payment processing. The program is also responsible for consolidation of 1099-MISC information for the Internal Revenue Service. The program coordinates compliance with IRS rules governing 1099 MISC-filings and error reports.

The program is authorized through 17-8-305, MCA. Statute does not allow for an alternative for agencies that need checks processed and funds transferred to vendors electronically if they use the state accounting system.

Revenues and Expenses

In fiscal 2002, the Warrant Writer Program had revenues of roughly \$922,400 from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (36.2 percent), \$333,900
- o State special revenue (10.4 percent), \$95,900
- o Federal special revenue (19.7 percent), \$181,700
- o Proprietary funds (14.6 percent), \$134,700
- o All other funds (19.1 percent), \$176,200

Revenues from fees are typically received within 45 days of each monthly billing. In fiscal 2002, the program received \$183,000 more in revenues than expenses or just less than 25 percent of annual expenses. This over recovery was primarily due to higher volumes of transactions experienced than were projected and is a factor for reducing the rates requested for the 2005 biennium.

In fiscal 2002, revenues funded personal services for 6.00 FTE and operating costs. Personal services of roughly \$142,700 were about 19 percent of expenses, with operating costs making up the majority of costs at roughly \$568,200 or nearly 77 percent of unit expenses. Major cost drivers include contract printing of warrants, warrant stock, and postage to mail warrants. Warrant stock cost and Information Technology Services Division print rates are expected to remain the same as in fiscal 2002 and postage is projected to increase 3 cents per item.

The table for fund 06564 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that for the 2005 biennium anticipated operating revenues from rates and other charged revenues would be less than anticipated operating expenses, resulting in operating losses in each year totaling \$160,600 for the biennium. These

losses would draw on fund balance accumulated with net operating gains of \$222,700 in the 2003 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06564	Warrant	61010	Dept. of Administration	Agency Financial Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Warrant Processing	-	-	-	831,766	855,883	873,501
Net Fee Revenue	729,763	735,164	922,385	831,766	855,883	873,501
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	350	-	98	-	-	-
Total Operating Revenues	730,113	735,164	922,483	831,766	855,883	873,501
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	730,113	735,164	922,483	831,766	855,883	873,501
Operating Expenses:						
Personal Services	132,254	139,070	142,711	161,309	189,085	189,488
Other Operating Expenses	595,740	587,082	568,155	580,248	728,965	702,071
Miscellaneous, operating	48,449	45,881	28,880	50,260	39,968	40,402
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	776,443	772,033	739,746	791,817	958,018	931,961
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	776,443	772,033	739,746	791,817	958,018	931,961
Operating Income (Loss)	(46,330)	(36,869)	182,737	39,949	(102,135)	(58,460)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(1,248)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(1,248)	-	-	-	-
Income (Loss) Before Operating Transfers	(46,330)	(38,117)	182,737	39,949	(102,135)	(58,460)
Contributed Capital	20,779	20,779	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	48,099	1,769	(15,569)	167,168	207,117	104,982
Net Income (Loss)	(25,551)	(17,338)	182,737	39,949	(102,135)	(58,460)
Retained Earnings/Fund Balances - June 30	22,548	(15,569)	167,168	207,117	104,982	46,522
60 days of expenses (Total Operating Expenses divided by 6)	129,407	128,672	123,291	131,970	159,670	155,327

Fee/Rate Information for Legislative Action:

Requested ALLOCATED	FY2000	FY2001	FY2002	-----Estimated-----	Authority
Mailer Warrants	0.50277	0.50143	0.61700	0.58377	0.58624 0.58017 17-8-301
Non-Mailer Warrants	0.18230	0.18190	0.20800	0.19523	0.17803 0.17195
Duplicate Warrants	0.05360	0.50320	5.66320	5.37928	5.63949 5.63768
External Warrants	0.14960	0.14920	0.18500	0.17338	0.15523 0.14915
Emergency Warrants	3.30190	3.30060	4.13290	3.92540	4.26759 4.26588
Budget is distributed as a fixed cost to agencies based on FY 2002 actuals					

Rate Explanation

Demand for each warrant category is made by comparing two biennia of actual activity to project usage for the upcoming biennium. Mailer warrants factor in warrant stock cost, postage, and printing, while non-mailer warrants factor in

warrant stock cost and printing. Both types of warrants pay for the required reconciliation between the accounts payable module of the state accounting system and the state's bank account. Direct deposits pay a \$0.05 charge for bank processing. Duplicate and emergency warrants pay for personnel time to process each individual request. All categories share equally in general operating expenses of the program based on projected transaction volume.

The historical and requested rates for the Warrant Writer Program are shown at the bottom of the table for fund number 06564. These rates include the impacts of moving 0.33 FTE from funding in HB 2 to funding from the warrant writer proprietary fund.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Warrant Writer Program expenses totaling roughly \$140,400 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of the Warrant Writer Program.

Adjustments included in the rate request are:

- o A net increase totaling \$22,954 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$84,000 for the biennium for increased postage costs that went into effect after the base year
- o An increase of \$33,441 for the biennium for funding to move an existing 0.33 FTE from general fund in HB 2 to funding from the warrant writer proprietary fund (offset to new proposal DP 311)

Human Resource Unit (Fund 06570)

Program Description

The Human Resource Unit processes payroll and provides new employee orientation for all divisions of the department and agencies administratively attached to the department, assists with recruitment and selection, classifies positions, and develops personnel policies and procedures.

Revenues and Expenses

In fiscal 2002, the Human Resource Unit had revenues of roughly \$116,800 from fees paid by divisions served. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o State special revenue (22.2 percent), \$26,000
- o Proprietary funds (68.3 percent), \$79,800
- o Trust funds (9.5 percent), \$11,000

In fiscal 2002, revenues funded personal services for 2.75 FTE and operating costs. Personal services of roughly \$122,900 were 82 percent of expenses, with operating costs making up the remaining \$20,900 or 18 percent of unit expenses. Fiscal 2002 revenues and expenses show increases proportional to adding 1.00 FTE that resulted when programs of the Department of Commerce were moved into the Department of Administration after the 2001 legislature passed SB 445.

General funded divisions do not pay a fee for this program. Instead, general funded programs are supported with 0.25 FTE funded by a direct appropriation of general fund in the Administrative Financial Services Division. The general fund position is included in the main budget tables for the division. The table for fund 06570 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06570	Human Resource Unit	61010	Dept. of Administration	Management Support Bureau

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	-	-	116,745	124,068	118,740	119,206
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	-	-	116,745	124,068	118,740	119,206
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	-	-	116,745	124,068	118,740	119,206
Operating Expenses:						
Personal Services	-	-	96,401	100,257	104,360	104,832
Other Operating Expenses	-	-	20,901	15,979	22,673	23,062
Miscellaneous, operating	-	-	-	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	-	-	117,302	116,236	127,033	127,894
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	-	-	117,302	116,236	127,033	127,894
Operating Income (Loss)	-	-	(557)	7,832	(8,293)	(8,688)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	-	-	(557)	7,832	(8,293)	(8,688)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	-	-	-	(27,026)	(14,603)	(22,896)
Adjustments to Beginning retained Earnings	-	-	(26,469)	4,591	-	-
Net Income (Loss)	-	-	(557)	7,832	(8,293)	(8,688)
Retained Earnings/Fund Balances - June 30	-	-	(27,026)	(14,603)	(22,896)	(31,584)
60 days of expenses						
(Total Operating Expenses divided by 6)	-	-	19,550	19,373	21,172	21,316

Fee/Rate Information for Legislative Action:		
Allocated based on FTE		
-----Estimated-----		
Requested Rates for Internal Service Funds	FY2004	FY2005
Teachers' Retirement	5,278	5,299
Public Employees' Retirement	10,062	10,101
Administrative Financial Services	9,568	9,605
Architecture & Engineering	5,608	5,630
General Services	27,525	27,633
Banking Division	8,247	8,280
Lottery Division	10,556	10,598
Risk Management & Tort Defense	5278	5299
Information Technology Ser Div	29,690	29,806
Personnel Division	6,928	6,955
Totals	118,740	119,206

Rate Explanation

The Human Resource Unit is responsible for handling payroll/personnel issues. Since workload of the unit is linked to the number of FTE, rates based on FTE served by the program have been established. This is different than the fee allocation approved by the 2001 legislature. The 2001 legislature approved moving this function from general fund in HB 2 to proprietary funding. When it established this unit under proprietary funding the legislature approved rates based

on a fixed amount of revenues the program could collect, but specified the program could allocate the costs based on FTE served.

For the 2005 biennium, the executive recommends maximum rates of \$330 per FTE in fiscal 2004 and \$331 per FTE in fiscal 2005 for the Human Resources Unit.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Human Resource Unit expenditures for a net reduction of \$1,377 for the 2005 biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department.

Enterprise Funds

Audit Review and Defalcation Audit Programs (Fund 06042/06043)

Program Description

The Audit Review Program is responsible for administering the provisions of the Montana Single Audit Act, which specifies the audit requirements for all Montana local government entities. It also provides information to the public regarding local government audits, audit findings, entity responses to findings, legal compliance, and accounting requirements.

The Defalcation Audit Program coordinates the financial and compliance post-auditing of financial statements of local taxing jurisdictions by contracting with private accounting firms. The program determines if a special audit of a local government entity should be conducted due to a significant defalcation or an alleged financial or reporting impropriety.

Revenues and Expenses

The Audit Review Program receives revenues from two fees:

- The report filing fee, required by 2-7-514, MCA, is based upon costs incurred by the department for administering the Audit Review Program. All local government entities that are required to submit audits pay the filing fee.
- A roster fee is collected from auditors for their inclusion on a roster of independent auditors who are authorized to audit local government entities in Montana.

The fee revenues support a staff of 4.00 FTE.

Funding for the Defalcation Audit Program is derived from the reimbursable special audit costs received from local government entities undergoing audits or reviews. No FTE are funded with Defalcation Audit Program funds. Audit Review Program staff perform any administrative or monitoring work related to the contracted special audits or reviews. The department's cost recovery is dependent on the fiscal capacity of audited local government entities.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06042, 06043	Local Government Audits	61010	Dept. of Administration	Agency Financial Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	247,536	260,608	259,376	245,000	259,000	259,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	402	-	2	-	-	-
Total Operating Revenues	247,938	260,608	259,378	245,000	259,000	259,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	247,938	260,608	259,378	245,000	259,000	259,000
Operating Expenses:						
Personal Services	161,022	167,207	178,410	184,282	195,311	196,432
Other Operating Expenses	46,099	52,174	57,323	43,537	-	-
Miscellaneous, operating	39,669	34,696	18,920	132,691	236,906	87,026
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	246,790	254,077	254,653	360,510	432,217	283,458
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	246,790	254,077	254,653	360,510	432,217	283,458
Operating Income (Loss)	1,148	6,531	4,725	(115,510)	(173,217)	(24,458)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(688)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(688)	-	-	-	-
Income (Loss) Before Operating Transfers	1,148	5,843	4,725	(115,510)	(173,217)	(24,458)
Contributed Capital	105,626	105,626	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	231,131	232,279	343,748	348,473	232,963	59,746
Net Income (Loss)	106,774	111,469	4,725	(115,510)	(173,217)	(24,458)
Retained Earnings/Fund Balances - June 30	337,905	343,748	348,473	232,963	59,746	35,288
60 days of expenses (Total Operating Expenses divided by 6)	41,132	42,346	42,442	60,085	72,036	47,243

The executive included present law adjustments and new proposals for increased expenses totaling \$170,315 for the 2005 biennium.

Adjustments included in the rate request are:

- o A net increase totaling \$5,794 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$150,000 for the biennium to convert its current audit program software from Informix to Oracle
- o An increase of \$14,521 for the biennium for rent increases of space in the old Helena federal building

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	17.00	0.00	0.00	17.00	0.00	0.00	17.00	17.00
Personal Services	794,977	132,413	0	927,390	131,293	0	926,270	1,853,660
Operating Expenses	296,554	(470)	8,298	304,382	8,369	8,294	313,217	617,599
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$1,091,531	\$131,943	\$8,298	\$1,231,772	\$139,662	\$8,294	\$1,239,487	\$2,471,259
State/Other Special	1,091,531	120,401	8,298	1,220,230	121,293	8,294	1,221,118	2,441,348
Capital Projects	0	11,542	0	11,542	18,369	0	18,369	29,911
Total Funds	\$1,091,531	\$131,943	\$8,298	\$1,231,772	\$139,662	\$8,294	\$1,239,487	\$2,471,259

Program Description

The Architecture and Engineering Division (A&E) manages remodeling and construction of state buildings. Its functions include planning new projects and remodeling projects; advertising, bidding, and awarding construction contracts; administering contracts with architects, engineers, and contractors; disbursing building construction payments; and providing design services for small projects. The division also formulates a long-range building plan for legislative consideration each session.

Program Narrative

Department of Administration Architecture & Engineering Program Major Budget Highlights

- Total fund budget increases \$170,312 or 7.4 percent (no general fund) from the 2003 biennium

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Architecture & Engineering Pgm						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02030 Arch & Engin Construction	\$ 1,091,531	100.0%	\$ 1,220,230	99.1%	\$ 1,221,118	98.5%
05007 Long Range Building Program	-	-	11,542	0.9%	18,369	1.5%
Grand Total	\$ 1,091,531	100.0%	\$ 1,231,772	100.0%	\$ 1,239,487	100.0%

The Architecture and Engineering Division is funded with funds transferred from the long-range building capital projects fund to a state special revenue account established for administrative expenses.

Present Law Adjustments											
-----Fiscal 2004-----						-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services					171,054					169,888	
Vacancy Savings					(38,641)					(38,595)	
Inflation/Deflation					1,162					1,829	
Fixed Costs					5,599					13,774	
Total Statewide Present Law Adjustments					\$139,174						\$146,896
DP 401 - Other Fixed Costs	0.00	0	(7,231)	0	(7,231)	0.00	0	(7,234)	0	(7,234)	
Total Other Present Law Adjustments											
	0.00	\$0	(\$7,231)	\$0	(\$7,231)	0.00	\$0	(\$7,234)	\$0	(\$7,234)	
Grand Total All Present Law Adjustments					\$131,943						\$139,662

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 401 - Other Fixed Costs - The executive recommends a reduction of roughly \$14,500 state special revenue for the biennium for indirect/administrative costs for services received from other proprietary funded centralized service functions of the agency.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 318 - Indirect Cost Allocation - HB576										
04	0.00	0	8,298	0	8,298	0.00	0	8,294	0	8,294
Total	0.00	\$0	\$8,298	\$0	\$8,298 *	0.00	\$0	\$8,294	\$0	\$8,294 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 318 - Indirect Cost Allocation - HB576 - An increase of \$16,592 state special revenue for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	10.05	0.00	(0.50)	9.55	0.00	(0.50)	9.55	9.55
Personal Services	419,643	21,422	(25,607)	415,458	20,708	(25,515)	414,836	830,294
Operating Expenses	465,124	57,910	(404,480)	118,554	73,245	(421,785)	116,584	235,138
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Transfers	933,055	0	(382,018)	551,037	0	(382,169)	550,886	1,101,923
Debt Service	32,050	0	0	32,050	0	0	32,050	64,100
Total Costs	\$1,849,872	\$79,332	(\$812,105)	\$1,117,099	\$93,953	(\$829,469)	\$1,114,356	\$2,231,455
General Fund	916,817	79,332	(379,050)	617,099	93,953	(396,414)	614,356	1,231,455
Capital Projects	933,055	0	(433,055)	500,000	0	(433,055)	500,000	1,000,000
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$1,849,872	\$79,332	(\$812,105)	\$1,117,099	\$93,953	(\$829,469)	\$1,114,356	\$2,231,455

Program Description

The General Services Division is composed of four bureaus responsible for providing certain internal services to government agencies and the public.

The Facilities Management Bureau manages the following services for state agencies in the capitol complex and several state-owned buildings in the Helena area either directly or through the administration of service contracts: repair, maintenance, construction, energy consumption, disaster response and recovery, space allocation, lease negotiation, security, janitorial, recycling, pest control, and garbage collection.

The State Procurement Bureau procures or supervises the procurement of all supplies and services, and provides technical assistance to government agencies and the public to ensure compliance with the Montana Procurement Act.

The Print Services Bureau provides printing services to state agencies by operating a central facility for duplicating and binding, desktop publishing, layout and design, graphic illustration, and forms design. It operates three quick-copy centers, administers the state photocopy pool, and approves the procurement of all printing and printing-related purchases for state agencies.

Mail services for state agencies in the Helena area are provided through a centralized facility that manages incoming, outgoing, and interagency mail. In addition, the bureau operates a full service contract United States post office in the state capitol building. The Property and Supply Bureau manages the Central Stores program and the State and Federal Surplus Property programs. The division also manages the state's vehicle fueling, energy procurement, and procurement card functions.

Program Narrative

Department of Administration General Services Division Major Budget Highlights
- o Total fund budget is reduced by \$1.5 million or 39.8 percent, with general fund reduced by \$0.6 million or 33.1 percent, from the 2003 biennium - o A net 0.5 FTE reduction - o Reorganization combined several divisions - o Former General Services - o Former Procurement & Printing Division - o Former Mail & Distribution Bureau
Major LFD Issues
- o Predictability of capitol land grant trust fund as a funding source - o Maintenance contract cost increases - o General fund subsidy for fueling program - o High fund balance in central stores proprietary fund - o Need for central stores - o Alternatives for approving rate requests - o Mail Services Section - o External printing

Program Reorganization

During the 2003 biennium, the General Services Program was combined with the Mail and Distribution Bureau and the Procurement and Printing Division to form the General Services Division. All three functions continue to provide the same services as before the reorganization. The main difference is that division management was consolidated under fewer managers.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table General Services Program						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 916,817	49.6%	\$ 617,099	55.2%	\$ 614,356	55.1%
05008 Capital Land Grant	<u>933,055</u>	<u>50.4%</u>	<u>500,000</u>	<u>44.8%</u>	<u>500,000</u>	<u>44.9%</u>
Grand Total	<u>\$ 1,849,872</u>	<u>100.0%</u>	<u>\$ 1,117,099</u>	<u>100.0%</u>	<u>\$ 1,114,356</u>	<u>100.0%</u>

The General Services Division is funded with general fund, capitol land grant trust fund, and proprietary funds. General fund provides funding for the procurement bureau and facilities maintenance functions for common areas of the Capitol Building, office space for the Senate and House of Representatives, Governor's Mansion, public display areas in the Historical Society Museum, and some office space in the museum building. Capitol land grant trust fund was used in the 2003 biennium to supplement rental rates to the Department of Administration for all agencies but would be used in the 2005 biennium to supplement only the general fund support for common areas.

The following programs are funded with proprietary funds and are not shown on the main budget tables but are discussed in the proprietary rates section for the division:

- o Mail services
- o Print services
- o Property and supply
- o Central stores
- o Facilities management
- o Surplus property
- o State fueling network
- o State procurement card

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Total Funds
Personal Services					39,799					39,055
Vacancy Savings					(18,377)					(18,347)
Inflation/Deflation					899					910
Fixed Costs					57,772					73,112
Total Statewide Present Law Adjustments					\$80,093					\$94,730
DP 601 - Adjust Management Services Fixed Costs	0.00	(761)	0	0	(761)	0.00	(777)	0	0	(777)
Total Other Present Law Adjustments	0.00	(\$761)	\$0	\$0	(\$761)	0.00	(\$777)	\$0	\$0	(\$777)
Grand Total All Present Law Adjustments					\$79,332					\$93,953

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 601 - Adjust Management Services Fixed Costs - The executive recommends a reduction of roughly \$1,500 general fund for the biennium for indirect/administrative costs for services received from other proprietary funded centralized services functions of the agency.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Total Funds
DP 317 - Indirect Cost Allocation - HB 2										
06	0.00	7,677	0	0	7,677	0.00	7,685	0	0	7,685
DP 611 - Use Capitol Land Grant for Major Maintenance										
06	0.00	(419,857)	0	0	(852,912)*	0.00	(433,870)	0	0	(866,925)*
DP 612 - Transfer & Fund FTE in Fueling Program										
06	(1.00)	0.00	0	0	0.00	(1.00)	0.00	0	0	0.00
DP 614 - FTE for PeopleSoft Procurement Module										
06	0.50	33,130	0	0	33,130	0.50	29,771	0	0	29,771
Total	(0.50)	(\$379,050)	\$0	\$0	(\$812,105)*	(0.50)	(\$396,414)	\$0	\$0	(\$829,469)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Allocation - HB 2 - An increase of \$15,362 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management

Support Bureau that provide centralized service functions for divisions of the department.

DP 611 - Use Capitol Land Grant for Major Maintenance - The executive recommends reductions of \$0.9 million general fund and \$0.9 capitol land grant trust funds for the biennium. This would leave a net \$1.0 million for the biennium of capitol land grant trust funds for major maintenance costs of the Facilities Management Bureau. All told, \$1.7 million for the biennium less maintenance would be done on common areas of the capitol complex.

LFD COMMENT

Use of Capitol Land Grant Funds

The enabling act for the capitol land grant trust fund only allows these funds to be used for specific purposes, one of which is major maintenance such as permanent improvement of state buildings. In the 2003 biennium, the Facilities Management Bureau was funded with \$1.9 million of capitol land grant funds, but fewer funds are available for the 2005 biennium. The major source of revenue to the capitol land grant trust is proceeds for timber sales on state lands. Sale of fire salvage timber from the 2000 fire season provided higher revenues in the 2003 biennium than are available for the 2005 biennium since most of the viable timber has been harvested. Also, the capitol land grant funds were used in the 2003 biennium to subsidize rent payments from capitol complex tenants. This has changed for the 2005 biennium with the executive applying the subsidy to general fund support of common areas and not subsidizing the rent payments made by all tenant agencies. The approach taken for the 2005 biennium provides a direct benefit for the general fund instead of benefiting all fund types as was done in the 2003 biennium. The Executive Budget did not specify what maintenance activities would be impacted by this reduced capitol land grant transfer.

DP 612 - Transfer & Fund FTE in Fueling Program - The executive recommends transferring funding for 1.00 FTE from the Procurement Bureau to the Statewide Fueling Network Program. The executive also requests authority for a transfer of general fund to the Statewide Fueling Network Program equivalent to the amount of funding for the position moved. The result would be no funding impact for general fund or the proprietary fund.

LFD ISSUE

General Fund Subsidy for Fueling Program

The executive request removes the funding for the position that administers the Statewide Fueling Network Program, a proprietary funded program, to the proprietary fund. However the request does not remove this funding from the budget but provides for a transfer of general fund to subsidize the proprietary funds via a contribution of capital. The practice of subsidizing the Statewide Fueling Network Program with general fund has been identified in the past three legislative audits of the program. The audit recommendations were for the proprietary program to recover full costs through the charges of the program.

If the legislature wants the proprietary program to stand on its own without general fund support, it may wish to remove general fund in the amounts of \$51,037 for fiscal 2004 and \$50,886 for fiscal 2005 from this decision package. To make the program whole for this adjustment, the legislature would need to adjust the rates being requested for this proprietary program. A discussion for this adjustment is provided in the proprietary rate discussion for the Statewide Fueling Network that follows.

DP 614 - FTE for PeopleSoft Procurement Module - An increase of \$62,901 general fund for the biennium is requested to fund the addition of 0.50 FTE for duties associated with the procurement module of the statewide accounting, budgeting, and human resource system (SABHRS). The position would manage system data, trouble-shoot hardware and software problems, test upgrades and software fixes, train bureau and agency staff, and adapt internal processes to the software requirements.

Proprietary Rates

Program Description

The General Services Division provides the following functions funded with proprietary fund. These programs are described below along with a discussion of the program revenues, expenses, and rates being requested to finance the programs:

- Facilities management
- Mail services
- Print services
- Surplus property

- Central Stores
- Statewide Fueling Network
- Procurement Card

Facilities Management Bureau (Fund 06528)

Program Description

The Facilities Management Bureau is custodian of all state property in the state capitol area, which is the geographic area within a 10-mile radius of the state capitol. The bureau provides facilities management assistance, including repair, maintenance, and construction services to state agencies in the Helena area and provides statewide leasing assistance to agencies to negotiate co-location of agencies to procure leased space for field offices. The bureau also manages the office waste paper products recycling program in the Helena area. The program serves all agencies and units within state government.

Revenues and Expenses

In fiscal 2002, the Facilities Management Bureau had revenues of roughly \$4.8 million from rent payments paid by tenant agencies. Rent payments make up 78.5 percent of revenues for the bureau. These rent payments were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (50.2 percent), \$2,400,000
- State special revenue (15.1 percent), \$709,000
- Federal special revenue (15.0 percent), \$704,000
- Proprietary funds (19.3 percent), \$905,000
- All other funds (0.4 percent), \$16,000

Also in fiscal 2002, a transfer of \$933,055 from capitol land grant trust fund revenues funded an additional 15.4 percent of the operations of the program. This same amount is also planned for fiscal 2003. Because timber sale revenues are expected to decrease from those seen in the 2003 biennium, the executive proposes reducing the support from the capitol land grant trust fund to \$500,000 per year of the 2005 biennium. (The timber sale revenues were high during the 2003 biennium because of timber sales in burn areas of the 2000 fire season.)

In fiscal 2002, revenues funded personal services for 23.10 FTE and operating costs. Personal services of roughly \$0.9 million were 16.5 percent of expenses. The lion's share of costs was for operating expenses amounting to \$4.5 million or 83.3 percent of program expenses. Operating expenses are comprised of utilities, repair and maintenance, and contracted services. The program contracts for these functions: insurance, janitorial, mechanical, elevator, pest control, and security services. All contracted costs are expected to increase in the 2005 biennium as contracts are renewed and because of the state taking over ownership of the old National Guard armory building in Helena during the 2003 biennium.

The table for fund 06528 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows operating revenues from rates and other charged revenues are less than operating expenses resulting in operating losses in every year. These losses were addressed in the 2003 biennium and partially addressed in the 2005 biennium with planned transfers from the capitol land grant trust fund. The result is a fund balance adequate to finance roughly one month of operating expenses.

LFD ISSUE

Capitol Land Grant Trust

The capitol land grant trust funds should not be relied on as a predictable source of revenue to finance the maintenance functions of the capitol complex. The amount of available funds from this trust is very dependant on timber sales on state lands and can fluctuate significantly from one year to the next. For example, following the 2000 fire season, significant revenues were generated from salvage logging in burned areas. As a result, the revenues and fund balance grew significantly. However, high revenues were not sustained. The reduction of the capitol land grant trust fund transfer between the 2003 and 2005 biennia is an example of the lack of predictability of this funding source.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06528	Facilities Management	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Revenue from Office Rental Rate	-	-	-	4,171,683	5,436,086	5,653,965
Revenue from Warehouse Rental Rate	-	-	-	190,361	207,144	208,969
Revenue from Recycling Revenue	-	-	-	10,000	10,000	10,000
Revenue from Handyman Charges	-	-	-	85,000	45,000	45,000
Revenue from Project Work	-	-	-	55,000	55,000	55,000
Net Fee Revenue	5,107,350	5,513,037	5,125,035	4,512,044	5,753,230	5,972,934
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,120	1	339	-	-	-
Total Operating Revenues	5,108,470	5,513,038	5,125,374	4,512,044	5,753,230	5,972,934
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	5,108,470	5,513,038	5,125,374	4,512,044	5,753,230	5,972,934
Operating Expenses:						
Personal Services	816,699	932,942	887,839	963,361	1,001,198	1,003,705
Other Operating Expenses	4,209,811	4,682,905	4,452,582	4,242,065	5,290,690	5,507,877
Miscellaneous, operating	82,863	81,797	110,871	-	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	5,109,373	5,697,644	5,451,292	5,205,426	6,291,888	6,511,582
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	5,109,373	5,697,644	5,451,292	5,205,426	6,291,888	6,511,582
Operating Income (Loss)	(903)	(184,606)	(325,918)	(693,382)	(538,658)	(538,648)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(719)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(719)	-	-	-	-	-
Income (Loss) Before Operating Transfers	(1,622)	(184,606)	(325,918)	(693,382)	(538,658)	(538,648)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	44,430	-	933,055	933,055	500,000	500,000
Operating Transfers Out (Note 13)	(410,953)	(1,848)	(418,000)	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	773,800	398,415	207,200	396,337	636,010	597,352
Net Income (Loss)	(368,145)	(186,454)	189,137	239,673	(38,658)	(38,648)
Retained Earnings/Fund Balances - June 30	405,655	211,961	396,337	636,010	597,352	558,704
60 days of expenses (Total Operating Expenses divided by 6)	851,562	949,607	908,549	867,571	1,048,648	1,085,264

Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action

Agency Number: 61010

Fund Number: 06528

	FYE 00	FYE 01	FYE 02	Budgeted FY 03	-----Requested----- FY 04	FY 05	AUTHORITY
Office Rent (per sq. ft.)	5.13	5.37	4.766	4.881	5.988	6.228	MCA 2-17-101
Storage Rent (per sq. ft.)	2.12	2.12	2.12	2.12	2.27	2.29	MCA 2-17-101
Project Mgmt (In-house)	15%	15%	15%	15%	15%	15%	
Project Mgmt (Contracted)	5%	5%	5%	5%	5%	5%	

Rate Explanation

Rent is assessed on a cost per square foot basis to each agency occupying space in the buildings controlled by the Department of Administration. The rates are established to cover the cost of personal services, operating expenses

including maintenance and equipment. Project work completed for agencies by in-house staff or contracted with an outside vendor is on a cost recovery basis.

Figure 6A shows the historical rates and requested rates requested for the 2005 biennium.

		Figure 6A Facilities Management Bureau Rates for Legislative Approval					
Description	Billing Basis	Fiscal 2000 Actual	Fiscal 2001 Actual	Fiscal 2002 Actual	Fiscal 2003 Budget	Fiscal 2004 Request	Fiscal 2005 Request
Office rent	\$ per sq. ft.	5.130	5.370	4.766	4.881	6.310	6.545
Storage rent	\$ per sq. ft.	2.120	2.120	2.120	2.120	2.270	2.290
Project management (in-house)	percent of project cost	15	15	15	15	15	15
Project management (contracted)	percent of project cost	5	5	5	5	5	5

LFD COMMENT

Rental Rates Subsidized in the 2003 Biennium

Figure 6A shows lower office rent rates for the 2003 biennium than for the 2001 biennium. This reduction was due to roughly \$933,000 from the capitol land grant trust fund being used to subsidize the 2003 biennium rates. Had the legislature approved rates for the 2003 biennium that reflected the same average annual growth rate of 4.7 percent that existed from fiscal 2000 to fiscal 2001, the rates would have been \$6.159 for fiscal 2004 and \$6.448 for fiscal 2005. The rates being requested reflect an average annual growth rate of 5 percent, which is 0.3 percent higher than the growth rate from fiscal 2000 to fiscal 2001.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Facilities Management Bureau expenses totaling \$1,274,511 for the 2005 biennium. No information was provided to determine the impact these adjustments would have on rates of the bureau.

Adjustments included in the rate request are:

- o A net increase totaling \$93,437 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$1,181,074 for the biennium for additional operating costs of facilities management broken down as: 1) janitorial contract increases; 2) maintenance contracts for elevator maintenance, mechanical maintenance, and pest control services; 3) security protection; 4) security training for state employees; 5) fire suppression services and fire sprinkler system and fire alarm system inspections; 6) utilities of new buildings brought into state ownership during the base year; and 7) increased cost for lease of land at the Helena Regional Airport

LFD ISSUE

Contract Cost Increases

Contract cost increases in excess of 10 percent are anticipated for several of the maintenance contracts of the department. In light of the double digit increases in maintenance contracts funded by rent payments, the legislature may want to consider undertaking a study to determine if maintenance of state buildings is more cost effective by contracting with the private sector or by use of state employees and resources.

Mail Services Section (Fund 06523)

Program Description

The Mail Services Section provides a centralized mailing service. Services provided by the program include: 1) mail pick-up and delivery in agency offices; 2) metering of out-going U.S. mail; 3) bar coding mailings that qualify for postal rate savings; 4) delivery of inter-agency printed communications, also known as "deadhead mail"; 5) operation of a

postal contract station with locked mail boxes in the Capitol Building; 6) United Parcel Service (UPS); and 7) express mail service. Customers include all agencies and units within state government.

Revenues and Expenses

The centralized mail operations, including pick-up and delivery, metering of out-going mail, bar coding operations, and express mail and United Parcel Service, provide 94 percent of mail services revenue; inter-agency mail accounts for 5 percent; and the contract station provides the remaining 1 percent of program revenue.

The U. S. Postal Service contributes to the operation of the postal contract station located in the Capitol Building.

In fiscal 2002, mail services had revenues of roughly \$3.4 million from postage fees collected from agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:³

- o General fund (18 percent), \$602,600
- o State special revenue (14 percent), \$468,700
- o Federal special revenue (11 percent), \$368,200
- o Proprietary funds (28 percent), \$937,300
- o All other funds (29 percent), \$970,800

Also during fiscal 2002, mail services had revenues of roughly \$165,000 from fees collected for inter-agency mail. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (41 percent), \$67,800
- o State special revenue (18 percent), \$28,800
- o Federal special revenue (9 percent), \$15,500
- o Proprietary funds (25 percent), \$41,700
- o All other funds (7 percent), \$11,200

In fiscal 2002, revenues funded personal services for 16.76 FTE, operating costs, and equipment. Personal services of roughly \$464,300 were about 12.8 percent of expenses, with operating expenses of roughly \$2,891,100 or nearly 79.8 percent of expenses and equipment making up the remaining \$267,600 or 7.4 percent of expenses. Operating expenses are comprised primarily of postage and equipment repair and maintenance.

Postage expense for mail services operations has increased over the years due to U.S. Postal Service rate increases. Historically, agency mailings have remained fairly consistent and the executive projects no significant change in volume. Major areas where expenses cannot be predicted with relative certainty are unscheduled repair or replacement of equipment that may fail without prior warning.

The table for fund 06523 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows operating revenues from rates and other charged revenues are less than operating expenses resulting in operating losses in every year.

³ It should be noted that the data used to estimate the funding for mail services, excluding for interagency mail, is derived from an accounting system expenditure code that is used to record other postage-related costs, in addition to postage costs paid to the Mail Services Section. As such, an assumption was made that total expenditures on postage portrays the same funding profile as postage payments made to the Mail Services Section.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06523	Mail & Messenger	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Post Office Contract	38,976	38,976	38,976	38,976	38,976	38,976
Centralized Mail Operations	3,483,775	2,982,060	3,347,566	3,532,824	3,532,824	3,532,824
Interagency Mail	164,951	170,773	168,063	169,402	151,467	151,467
Net Fee Revenue	3,687,702	3,191,809	3,554,605	3,741,202	3,723,267	3,723,267
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	779	-	226	-	-	-
Total Operating Revenues	3,688,481	3,191,809	3,554,831	3,741,202	3,723,267	3,723,267
Intrafund Revenue	(444,211)	-	-	-	-	-
Net Operating Revenues	3,244,270	3,191,809	3,554,831	3,741,202	3,723,267	3,723,267
Operating Expenses:						
Personal Services	402,489	454,821	482,057	447,537	535,061	540,073
Other Operating Expenses	3,009,177	2,795,750	2,933,346	3,177,370	3,119,098	3,117,796
Miscellaneous, operating	9,277	9,439	10,727	10,274	-	-
Equipment	-	-	-	-	267,563	267,563
Total Operating Expenses	3,420,943	3,260,010	3,426,130	3,635,181	3,921,722	3,925,432
Intrafund Expense	(444,211)	-	-	-	-	-
Net Operating Expenses	2,976,732	3,260,010	3,426,130	3,635,181	3,921,722	3,925,432
Operating Income (Loss)	267,538	(68,201)	128,701	106,021	(198,455)	(202,165)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(500)	-	15,824	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(500)	-	15,824	-	-	-
Income (Loss) Before Operating Transfers	267,038	(68,201)	144,525	106,021	(198,455)	(202,165)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	525,309	792,347	724,146	868,671	974,692	776,237
Net Income (Loss)	267,038	(68,201)	144,525	106,021	(198,455)	(202,165)
Retained Earnings/Fund Balances - June 30	792,347	724,146	868,671	974,692	776,237	574,072
60 days of expenses (Total Operating Expenses divided by 6)	570,157	543,335	571,022	605,864	653,620	654,239

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

Fee Group	FY00	FY01	FY02	FY03	FY04	FY05
Centralized Mail Operations						
ID Code (each)						
1. Letters under 1oz for barcoding	0.049 ea	0.049 ea	.05 ea	.05 ea	.05 ea	.05 ea
2. Mixed weight letters 0-2 oz metering for barcoding	0.056	0.056	0.06	0.06	0.06	0.06
3. 1 st Class letters held until next day (full postage rate)	0.060	0.060				
4. 1 st Class letters held until next day (for barcoding)	0.041	0.041				
4a. 1st class permit mailing (for barcoding)			0.04	0.04	0.04	0.04
5. Non barcoded in or out of state (full postage rate)	0.070	0.070				
5a. Non barcodable letter (full postage rate) 1 oz or under			0.07	0.07	0.07	0.07
5b. Non barcodable letter (full postage rate) mixed weight 0-5 oz			0.08	0.08	0.08	0.08
6. Flats	0.143	0.143	0.15	0.15	0.15	0.15
7. Manual Stamp Flats	0.155	0.155				
8. Parcels (Bound Printed Matter-Standard Mail B)	0.150	0.150				
9. Certified Mail	0.455	0.455	0.50	0.50	0.50	0.50
10. Registered Mail	0.455	0.455	0.50	0.50	0.50	0.50
11. International Mail	0.355	0.355	0.50	0.50	0.50	0.50
12. Meter Labels	0.155	0.155				
13. Special Handling	0.300	0.300				

Rate Explanation

For the 2005 biennium, the executive requests the legislature approve a rate for the inter-agency (deadhead) mail portion of the Mail Services Bureau, that is defined as the total amount allocated to agencies in fixed costs for messenger services in agency budgets.

LFD COMMENT

Meaning of Rate Request for Inter-Agency Mail

The Executive Budget contains allocations of \$134,012 in each year of the 2005 biennium for inter-agency mail fixed costs. It is a specified amount the legislature should approve as the maximum rate the bureau may receive in revenues for the operations of the inter-agency mail portion of the Mail Services Bureau operations.

For the 2005 biennium, the executive requests the legislature not approve specific postage rates for the remaining portions of the Mail Services Bureau operations, but an operating parameter that limits the program from charging postage rates that collect more than 60 days of working capital.

LFD ISSUE

Alternative Rate Approach for Mail Services Rates

A rate based on collecting no more than 60 days of working capital provides no budgetary limits on the operations of this program. Federal and state rules currently exist to limit proprietary funded programs from maintaining more than a 60-day working capital balance. Working capital is no more than an accounting term used to describe the balance remaining after short-term liabilities are deducted from short-term assets. The term roughly equates to the cash balance of a fund. Operating parameters can easily be manipulated to control this balance by increasing expenses to compensate for high revenue collections or increasing revenues to compensate for high expenses.

Since the legislature is charged with approving, in the General Appropriations Act, the maximum level of fees and charges for a proprietary funded program, it can be assumed to imply a legislative concern to indirectly control expenditures through the process of setting the level of fees and charges. Approving a working capital based rate does nothing to control the level of expenditure. Instead, it grants full control of program expenditures to the executive.

The main case the executive makes for "needing" a working capital rate instead of the legislature approving specific rates for the operations of the program are:

- The program does not have control over the volume of mail
- The program does not have control over the rate for postage charged by the U.S. Postal Service
- Equipment breakdowns cannot be anticipated

Mail Volume Risk

As the executive states in its budget submission, the volume of agency mailings has historically remained fairly constant. The bureau tracks mail volume and does not anticipate that this historical pattern will change during the 2005 biennium. As such, the financial risk associated with this concern is low.

Postal Rate Risk

Rates charged by the U.S. Postal Service are approved by the postal commission and not done on the spur of the moment. Postage rates that come out of the postal rate-setting process typically are determined far in advance of the rates taking effect. This delay would provide time for the bureau to either factor the anticipated rate increases in the rates submitted for legislative approval or minimize the time after legislative approval in which the bureau would be subjected to unanticipated postal rate increases. If postal rates increased above the level built into the legislatively approved rates, the bureau would still have options available to continue financing operations, such as to:

- Use fund balance
- Obtain a short-term loan

These options would allow the bureau to respond to unanticipated postal rate increases and still request adjustments during the next legislature to adjust rates. In fiscal 2002, payments for postage were \$2.6 million or 88.0 percent of operating expenses.

**LFD
ISSUE
(Cont.)***Unexpected Equipment Expense Risk*

In fiscal 2002, expenses on equipment were nearly seven times the average expenditure on equipment in the previous two fiscal years, and still equipment expenses were only 7.4 percent of all expenditures of the bureau. With equipment expenses making up a relatively low portion of the expenses of the bureau, even during a year with unusually high equipment expenses compared to historical equipment expenses, the uncertainty of any potential unexpected equipment costs outside the control of the bureau result in a low financial risk. If rates were not adequate to cover these unexpected expenses, the bureau would have the same options to address these cash flow needs as it would for unanticipated postal rate increases.

Legislative Alternatives

The uncertainty of the above factors is the reason the executive has requested a 60-day working capital rate for the Mail Services Bureau (other than the portion for inter-agency mail). However, Figure 6B that lists the historical and anticipated rate for the Mail Services Bureau, shows that the rates have not, nor are expected to change appreciably.

With this, the legislature may wish to consider another approach to funding the operations of the bureau. The legislature may wish to approve the following administrative overhead rate for the portion of the Mail Services Bureau for which a working capital rate is requested:

- Approve a rate to recover administrative overhead costs that can be charged as an adder to actual postage costs
- Specify that the Mail Services Bureau may bill agencies for actual expenses paid to the U.S. Postal Service and the United Parcel Service

The bureau has estimated costs for agency operations during the 2005 biennium. Based on these estimates and estimates by the bureau of mail volume (9.5 million pieces per year), administrative rates that would be needed to cover bureau's costs, exclusive of inter-agency mail and expenses to the U.S. Postal Service and United Parcel Service, are \$.0967 per piece in fiscal 2004 and \$.0971 per piece in fiscal 2005.

The executive has stated that they currently have processes in place to measure actual mail by piece. Currently, the bureau directly bills agencies for each piece and type of mail processed. With this process in place, there should be minimal impacts on the operations to bill agencies using this alternate rate methodology.

If the legislature wishes to apply this alternative, it may wish to have the executive verify these rates prior to legislative approval.

Figure 6B shows that the postal contract for the Capitol Building post office has remained constant for a number of years. The legislature may wish to direct the department to attempt to increase the federal support for this post office through negotiation of the contract.

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ISSUE
(Cont.)**

Figure 6B

Historical and Anticipated Rates
Mail Services Section

		Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Centralized Mail Operations							
1. Letters under 1oz for barcoding	each	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05
2. Mixed weight letters 0-2 oz metering for barcoding	each	0.06	0.06	0.06	0.06	0.06	0.06
3. 1 st Class letters held until next day (full postage rate)	each	0.06	0.06				
4. 1 st Class letters held until next day (for barcoding)	each	0.04	0.04				
4a. 1st class permit mailing (for barcoding)	each			0.04	0.04	0.04	0.04
5. Non barcoded in or out of state (full postage rate)	each	0.07	0.07				
5a. Non barcodable letter (full postage rate) 1 oz or under	each			0.07	0.07	0.07	0.07
5b. Non barcodable letter (full postage rate) mixed weight 0-5 oz	each			0.08	0.08	0.08	0.08
6. Flats	each	0.14	0.14	0.15	0.15	0.15	0.15
7. Manual Stamp Flats	each	0.16	0.16				
8. Parcels (Bound Printed Matter-Standard Mail B)	each	0.15	0.15				
9. Certified Mail	each	0.46	0.46	0.50	0.50	0.50	0.50
10. Registered Mail	each	0.46	0.46	0.50	0.50	0.50	0.50
11. International Mail	each	0.36	0.36	0.50	0.50	0.50	0.50
12. Meter Labels	each	0.16	0.16				
13. Special Handling	each	0.30	0.30				
14. UPS Handling	each	0.16	0.16	0.15	0.15	0.15	0.15
15. Express Mail	each	0.46	0.46	0.50	0.50	0.50	0.50
16. Ltrs Standard A for Metering over 1/4" thick don't barcode	each	0.18	0.18				
17. OCR rejected mail sort (Use to add postage with 99999)	each	0.10	0.10	0.10	0.10	0.10	0.10
18. OCR rejected mail sort (postcards)	each	0.08	0.08				
19. Late day mail, no discount	each	0.08	0.08				
20. Standard (3 rd class)	each	0.03	0.03				
21. Book (special 4 th class)	each	0.05	0.05				
22. Library	each	0.04	0.04				
23. Insured mail	each	0.16	0.16	0.50	0.50	0.50	0.50
24. Handwritten letter	each	0.18	0.18				
25. 1 st class permit mailing (for barcode)	each	0.05	0.05				
26. Bulk mail (non barcode)	each	0.05	0.05	0.06	0.06	0.06	0.06
27. Postage due (foreign or insuff postage, add postage)	each	0.26	0.26	0.45	0.45	0.45	0.45
28. Priority	each	0.20	0.20	0.50	0.50	0.50	0.50
29. UPS Misc (for accounting use only)	each	0.05	0.05	0.05	0.05	0.05	0.05
30. Post cards	each	0.04	0.04	0.04	0.04	0.04	0.04
31. Fee due .50 rm to sndr Address change or correction	each	0.35	0.35	0.45	0.45	0.45	0.45
32. Administrative fee (for accounting use only)	each	5.50	5.50	5.50	5.50	5.50	5.50
33. Annual messenger service charges	each	0.00	0.00	0.00	0.00	0.00	0.00
34. Annual PO Box charges	each	0.00	0.00	0.00	0.00	0.00	0.00
35. USPS Parcels	each			0.15	0.15	0.15	0.15
36. Media Mail	each			0.15	0.15	0.15	0.15
Interagency Mail	per year	164,951	170,773	168,063	169,402	151,467	151,467
Capitol post office contract	per year	38,976	38,976	38,976	38,976	38,976	38,976

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Mail Services Bureau expenses totaling \$45,123 for the 2005 biennium.

Adjustments included in the rate request are:

- o A net increase totaling \$18,123 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$27,000 for the biennium for overtime

Print Services Section (Fund 06530)

Program Description

The Print Services Section provides printing, duplicating, desktop publishing, layout and design, graphic and illustrative art, forms design, reprographics, binding and quick copy, and photocopier pools services for state agencies. The Print Services Section has three basic components: 1) internal printing; 2) external (contracted) printing; and 3) photocopy pool. Customers include all agencies and units within state government. Use of the photocopy pool is optional. A state agency may buy its own copier through the State Procurement Bureau. All printing or purchasing of printing is

requested through print services, which determines the most cost effective method of project completion. Not all requests for printing are completed internally. Nearly 65 percent of printing expenditures are procured through commercial vendors.

Revenues and Expenses

The Print Services Section provides all services as presented in the program description. According to the department, the three basic service categories provide revenues for the operations of the program in the following percentages:

- Internal printing, which charges user agencies for graphic design and layout, desktop publishing, reprographics, duplicating, bindery, and quick copy - 27 percent of print services revenue
- External printing - 56 percent of revenue
- Photocopy pool - 17 percent of revenue

Since revenues for all of print services are recorded using one revenue code, these percentages could not be verified. To improve accountability, the legislature may wish to direct the bureau to account for revenues of each of the three major functions separately under different revenue accounts.

In fiscal 2002, print services had revenues of roughly \$5.2 million from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (24.3 percent), \$1,270,800
- State special revenue (36.7 percent), \$1,916,500
- Federal special revenue (22.7 percent), \$1,188,300
- Proprietary funds (9.5 percent), \$496,900
- All other funds (6.8 percent), \$354,400

In fiscal 2002, revenues funded personal services for 25.94 FTE, operating costs, and equipment. Personal services of \$750,600 were roughly 13.9 percent of expenses, with most of the remaining costs made up with operating costs of \$4,595,100 or 85.5 percent of expenses.

Major internal printing costs, excluding personal services, are for direct materials used in production, such as paper and ink, equipment repair and maintenance, and equipment replacement. Historical demand by agencies for printing services has remained fairly consistent with higher demand cycles when the legislature is in session. There are no changes or significant growth expected in the demand pattern. Unscheduled equipment repair or replacement provided the greatest amount of uncertainty to forecasting costs for internal printing.

For external printing the major expenses are pass-through costs of commercial print vendors. These costs have historically remained fairly consistent, but vary depending upon complexity and quantity of agency print projects.

Major expenses for the photocopy pool are pass-through photocopy costs, such as payments made to contracted vendors and personnel services.

Overhead costs for administration, accounting, and supplies are allocated to the three print services programs based on FTE.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06530	Publications & Graphics	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Printing Coordination	5,305,195	5,547,430	5,227,041	6,283,669	5,790,596	6,079,979
Net Fee Revenue	5,305,195	5,547,430	5,227,041	6,283,669	5,790,596	6,079,979
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,569	18	448	-	-	-
Total Operating Revenues	5,306,764	5,547,448	5,227,489	6,283,669	5,790,596	6,079,979
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	5,306,764	5,547,448	5,227,489	6,283,669	5,790,596	6,079,979
Operating Expenses:						
Personal Services	802,793	801,401	750,604	1,030,550	868,039	953,259
Other Operating Expenses	4,564,308	4,859,694	4,595,136	5,165,823	4,730,796	4,873,887
Miscellaneous, operating	17,582	36,102	30,177	27,296	-	-
Equipment	-	-	-	-	135,000	175,000
Total Operating Expenses	5,384,683	5,697,197	5,375,917	6,223,669	5,733,835	6,002,146
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	5,384,683	5,697,197	5,375,917	6,223,669	5,733,835	6,002,146
Operating Income (Loss)	(77,919)	(149,749)	(148,428)	60,000	56,761	77,833
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(7,192)	(4,319)	5,178	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(7,192)	(4,319)	5,178	-	-	-
Income (Loss) Before Operating Transfers	(85,111)	(154,068)	(143,250)	60,000	56,761	77,833
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	1,139,654	1,054,543	900,475	757,225	817,225	873,986
Net Income (Loss)	(85,111)	(154,068)	(143,250)	60,000	56,761	77,833
Retained Earnings/Fund Balances - June 30	1,054,543	900,475	757,225	817,225	873,986	951,819
60 days of expenses (Total Operating Expenses divided by 6)	897,447	949,533	895,986	1,037,278	955,639	1,000,358

Rate Explanation

For the 2005 biennium, the executive requests the legislature not approve specific rates for the operations of the Print Services Bureau, but an operating parameter that limits the program from charging rates that collect more than 60 days of working capital.

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One Rate Requested for Three Distinct Functions

The Print Services Bureau has stated that it has a process to track both direct and indirect costs attributable to each of the three service functions: 1) external printing; 2) internal printing; and 3) photocopy pool. Each function is exposed to different sets of risks and operating conditions. However, the executive has requested one rate for the combined operation of all three functions. The Print Services Bureau incurs different costs for each function and bills customers using different rates and rate structures for each function.

The legislature may wish to approve rates separately for the three service functions listed above.

During the 2001 interim, the Legislative Finance Committee recommended to the executive that revenue and expenditure information for each fee or charge being billed to customers by internal service funded programs be provided with agency budget requests. Had this information been provided as requested, an analysis of these separate functions by the Legislative Fiscal Division would have been provided. Instead, aggregate information for the entire print services program was provided.

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External Printing

During the 2003 biennium, the bureau charged agencies a 6 percent markup on the cost of external print jobs. The bureau anticipates charging the same 6 percent markup during the 2005 biennium. Print services has minimal direct production involvement and the main costs incurred by the bureau for this function are personal services, overhead costs, and operating expenses directly attributable to each print job. As stated, the bureau has a process to track direct costs of each external print job and could directly bill agencies for these pass-through costs. A markup would allow the bureau to recover only costs to administer the external print contracts.

The legislature may wish to approve a percentage markup rate for the external printing portion of print services and allow the bureau to pass through to agencies the direct costs of each external print job. If it chose to do so, the legislature may want to direct the executive to provide documentation that shows costs and revenues separately for the external printing portion of print services and justify the need for a 6 percent markup.

By approving a separate rate for the external printing portion of the program, the legislature would approve the maximum rate for a fee that generates roughly 56 percent of program revenues. This one rate would exclude more than half the programs operations from being covered by the requested 60-day working capital rate. The rate the legislature approved would then be more closely tied to the actual operations of the program, as it would finance the administrative costs of the program and not provide total flexibility for the program to bill customers without a fee limit established by the legislature.

Internal Printing

Print services directly bills customers for each print job based on the volume of printing, the characteristics of the print job, and the optional production features. The historical fees for internal printing actually billed to customers and the anticipated fees for fiscal 2003 and the 2005 biennium are shown on Figure 6C. As illustrated, these fees have not changed and are not anticipated to change for the six fiscal years shown.

Figure 6C
Internal Printing Historical and Anticipated Rates
Print Services Bureau (Fund 06530)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Impression Cost						
1-20	0.024	0.024	0.055	0.055	0.055	0.055
21-100	0.024	0.024	0.024	0.024	0.024	0.024
101-1000	0.012	0.012	0.012	0.012	0.012	0.012
1001-5000	0.006	0.006	0.006	0.006	0.006	0.006
5000 +	0.003	0.003	0.003	0.003	0.003	0.003
Collating Machine	.005/sheet	0.005	0.006	0.006	0.006	0.006
Collating Hand	.45/min	0.45	0.50	0.50	0.50	0.50
Stapling Hand	.015/staple	0.015	0.015	0.015	0.015	0.015
Stapling In-line	.01/set	.01/set	.01/set	.01/set	.01/set	.01/set
Saddle Stitch	.03/set	.03/set	.03/set	.03/set	.03/set	.03/set
Folding	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding Rt Angle	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht	10.00+.005/sht
Folding In-line	.03/set	.03/set	.03/set	.03/set	.03/set	.03/set
Punching St 3 hole	.001/sht	.001/sht	.001/sht	.001/sht	.001/sht	.001/sht
Punching Non St	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht	3.00+.001/sht
Cutting	.55/min	.55/min	.55/min	.55/min	.55/min	.55/min
Padding	.002/sheet	.002/sheet	.002/sheet	.002/sheet	.002/sheet	.002/sheet
Scoring, perf, num	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate	5.00+Dup rate
Perfect Binding	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min	15.00+.55/min
Tape Binding	.50/each	.50/each	.50/each	.50/each	.50/each	.50/each
Tabs	.50/set	.50/set	.50/set	.50/set	.50/set	.50/set
Transparencies	.50/each	.50/each	.50/each	.50/each	.50/each	.50/each
Tabbing	.01/each	.01/each	.01/each	.01/each	.01/each	.01/each
Address Labels	.01/each	.01/each	.01/each	.01/each	.01/each	.01/each
Ink Jet Address	.03/each	.03/each	.03/each	.03/each	.03/each	.03/each
Shrink Wrapping	.15/each	.015/each	.25/each	.25/each	.25/each	.25/each
Hand Bindery	.45/min	.45/min	.50/min	.50/min	.50/min	.50/min
Graphic Arts	28.00/hr	28.00/hr	32.00/hr	32.00/hr	32.00/hr	32.00/hr
Negatives Stripped						
10x12	11.30	11.30	11.30	11.30	11.30	11.30
12x20	19.15	19.15	19.15	19.15	19.15	19.15
20x24	34.85	34.85	34.85	34.85	34.85	34.85
Halftone						
10x12	16.05	16.05	16.05	16.05	16.05	16.05
PMT's Positive						
10x12	6.65	6.65	6.65	6.65	6.65	6.65
12x20	13.35	13.35	13.35	13.35	13.35	13.35
20x24	26.70	26.70	26.70	26.70	26.70	26.70
PMT's Halftone						
10x12	10.15	10.15	10.15	10.15	10.15	10.15
Metal Plates						
8.5x11	8.00	8.00	8.00	8.00	8.00	8.00
11x17	9.00	9.00	9.00	9.00	9.00	9.00
Silver Plates						
8.5x11	7.00	7.00	7.00	7.00	7.00	7.00
11x17	8.00	8.00	8.00	8.00	8.00	8.00

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Photocopy Pool

Figure 6D shows the rates that have been charged to customers from fiscal 2000 to fiscal 2002 and the rates the bureau anticipates charging to customers in fiscal 2003 and the 2005 biennium for the photocopy pool. Except for the changes between fiscal years 2001 and 2002, these rates have not changed. The change after

fiscal 2001 was due to the movement to digital copiers.

Copiers offered through the photocopy pool are leased from local vendors and include a maintenance service agreement that covers the cost of repairs and equipment replacement during the lease period. Agencies pay for their own toner and copy paper. Agencies sign use agreements with print services to obtain a photocopier and in doing so agree to pay for the copier during the term of the agreement (one year). As such, agencies bare the greatest burden for cost and risks of the photocopy pool. Since the photocopy pool makes up a relatively small portion of the operations of print services (roughly 17 percent) and print services is subjected to minimal risks by its vendor contracts and agency agreements, unforeseen operating changes would have minimal impact on the integrity of the publications and graphics internal service fund by approving the separate rate shown on Figure 6D.

Figure 6D

Historical and Anticipated Rates

Photocopy Pool						
	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Monthly copier charge						
Level 1	\$ 62.0	\$ 62.0	\$ 42.0	\$ 42.0	\$ 42.0	\$ 42.0
Level 2	120.0	120.0	99.6	99.6	99.6	99.6
Level 3	228.0	228.0	228.0	190.8	190.8	190.8
Level 4	272.0	272.0	238.8	238.8	238.8	238.8
Level 5	396.0	396.0	343.2	343.2	343.2	343.2
Level 6	495.0	495.0	448.8	448.8	448.8	448.8
Level 7	616.0	616.0	483.6	483.6	483.6	483.6
Optional features for digital copiers						
Level 2						
Print Cost per page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	43.2	43.2	43.2	43.2
4.3 GB Hrd Disk Dr	N/A	N/A	10.8	10.8	10.8	10.8
Postscript Print	N/A	N/A	15.6	15.6	15.6	15.6
Fax Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Fax Option	N/A	N/A	27.6	27.6	27.6	27.6
Dual Phone Line	N/A	N/A	16.8	16.8	16.8	16.8
32mb Fax Memory	N/A	N/A	7.2	7.2	7.2	7.2
JBIG Function Upg	N/A	N/A	10.8	10.8	10.8	10.8
Internal Exit Tray	N/A	N/A	8.4	8.4	8.4	8.4
Level 3						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	79.2	79.2	79.2	79.2
Post Script	N/A	N/A	32.4	32.4	32.4	32.4
9 Bin Mailbox	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
Fax Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Fax Option	N/A	N/A	30.0	30.0	30.0	30.0
JBIG/Fax Upg	N/A	N/A	10.8	10.8	10.8	10.8
63 Interface Unit	N/A	N/A	18.0	18.0	18.0	18.0
32mb Fax Memory	N/A	N/A	4.8	4.8	4.8	4.8
Fax Handset	N/A	N/A	2.4	2.4	2.4	2.4
Internal Exit Tray	N/A	N/A	12.0	12.0	12.0	12.0
Level 4						
Print Cost Per Copy	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	79.2	79.2	79.2	79.2
Post Script Print	N/A	N/A	32.4	32.4	32.4	32.4
9 Bin Mail Box	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
Fax Cost Per Page	N/A	N/A	0.013	0.013	0.013	0.013
Fax Option	N/A	N/A	30.0	30.0	30.0	30.0
JBIG Fax Upgrade	N/A	N/A	10.8	10.8	10.8	10.8
63 Interface Unit	N/A	N/A	18.0	18.0	18.0	18.0
32mb Fax Memory	N/A	N/A	4.8	4.8	4.8	4.8
Fax Handset	N/A	N/A	2.4	2.4	2.4	2.4
Internal Exit Tray	N/A	N/A	12.0	12.0	12.0	12.0
Level 5						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	67.2	67.2	67.2	67.2
Post Script Print	N/A	N/A	49.2	49.2	49.2	49.2
Ethernet NIC	N/A	N/A	15.6	15.6	15.6	15.6
9 Bin Mailbox	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
32mb Print Memory	N/A	N/A	6.0	6.0	6.0	6.0
64mb Print Memory	N/A	N/A	12.0	12.0	12.0	12.0
128mb Print Mem	N/A	N/A	14.4	14.4	14.4	14.4
Level 6						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013
Print Controller	N/A	N/A	67.2	67.2	67.2	67.2
Post Script Print	N/A	N/A	49.2	49.2	49.2	49.2
Ethernet NIC	N/A	N/A	15.6	15.6	15.6	15.6
9 Bin Mailbox	N/A	N/A	68.4	68.4	68.4	68.4
Mailbox Bridge Unit	N/A	N/A	14.4	14.4	14.4	14.4
32mb Print Memory	N/A	N/A	6.0	6.0	6.0	6.0
64mb Print Memory	N/A	N/A	12.0	12.0	12.0	12.0
128mb Print Mem	N/A	N/A	14.4	14.4	14.4	14.4
Level 7						
Print Cost per Page	N/A	N/A	0.013	0.013	0.013	0.013

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for print services expenditures totaling roughly \$630,000 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of print services. According to the historical and anticipated rate information provided by the executive, no rate changes are anticipated as a result of the adjustments proposed for the 2005 biennium.

Adjustments included in the rate request are:

- A net increase totaling \$7,399 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$48,000 for the biennium for overtime
- An increase of \$481,488 for the biennium for materials directly used in printing
- A reduction of \$90,738 for the biennium to remove costs from the base associated with a completed installment purchase of equipment
- An increase of \$184,010 for the biennium for equipment purchases

Central Stores Program (Fund 06531)

Program Description

The Central Stores Program develops standard specifications, procures, warehouses, and delivers commonly used items to all state agencies and participating local governments. Customers include all agencies and units within state government and participating local governments. State agencies account for 94.1 percent and local governments for 5.9 percent of revenue.

Section 18-4-302(3), MCA, mandates state agencies to use central stores unless the publicly advertised price of an alternate supplier, established catalog price, or discount price offered to the agency is less than the price offered by the stores program if the office supply conforms in all material respects to the terms, conditions and quality offered by the stores program.

Revenues and Expenses

In fiscal 2002, central stores had revenues of \$4.9 million from purchase by state agencies and local governments. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (39.2 percent), \$1,905,100
- State special revenue (24.2 percent), \$1,179,200
- Federal special revenue (15.4 percent), \$750,400
- Proprietary funds (11.0 percent), \$532,700
- All other funds (10.2 percent), \$496,900

The table for fund 06531 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that in fiscal 2002 central stores received \$306,600 more revenues than expenses or 6.7 percent of annual expenses. This operating gain and an operating gain of \$421,000 in fiscal 2001 increased the fund equity to nearly \$1.4 million or 30 percent of fiscal 2002 expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name		
06531	Admin Supply	61010	Dept. of Administration	General Services		
					actual FY00	actual FY01
					actual FY02	budgeted FY03
					budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
	Central Stores Supplies				-	-
	Net Fee Revenue				4,219,490	5,236,176
	Investment Earnings				-	-
	Securities Lending Income				-	-
	Premiums				-	-
	Other Operating Revenues				980	120
	Total Operating Revenues				4,220,470	5,236,296
	Intrafund Revenue				-	-
	Net Operating Revenues				4,220,470	5,236,296
Operating Expenses:						
	Personal Services				340,698	347,265
	Other Operating Expenses				4,130,235	4,450,477
	Miscellaneous, operating				14,580	17,388
	Miscellaneous, other				-	-
	Total Operating Expenses				4,485,513	4,815,130
	Intrafund Expense				-	-
	Net Operating Expenses				4,485,513	4,815,130
	Operating Income (Loss)				(265,043)	421,166
Nonoperating Revenues (Expenses):						
	Gain (Loss) Sale of Fixed Assets				-	(5,871)
	Federal Indirect Cost Recoveries				-	-
	Other Nonoperating Revenues (Expenses)				-	-
	Net Nonoperating Revenues (Expenses)				-	(5,871)
	Income (Loss) Before Operating Transfers				(265,043)	415,295
	Contributed Capital				-	-
	Operating Transfers In (Note 13)				-	-
	Operating Transfers Out (Note 13)				-	-
	Retained Earnings/Fund Balances - July 1 - As Restated				916,974	651,931
	Net Income (Loss)				(265,043)	415,295
	Retained Earnings/Fund Balances - June 30				651,931	1,067,226
	60 days of expenses (Total Operating Expenses divided by 6)				747,586	802,522

**LFD
ISSUE****High Fund Balance**

The fund balance for central stores is in excess of \$1.5 million. This fund balance includes less than \$100,000 in liabilities and \$400,000 in merchandise inventory. Most of the remaining balance is in cash or receivables. With this high fund balance, the legislature may wish to either direct central stores to lower rates to draw down this balance or it may wish to take actions to transfer a portion of the fund balance to the general fund.

Central stores has lowered its rates for fiscal 2002 in response to a Legislative Audit Division finding that identified a high working capital balance and recommended that rates be lowered to bring revenues in line with expenses. The report for fund 06531 shows that even with this markup reduction, central stores would only bring revenues in line with expenses and not draw down the fund balance.

If the fund balance is transferred to the general fund, a portion of this amount would need to be refunded to federal programs paying for central stores supplies. The amount that would need to be refunded to the federal government is negotiable, but the executive has stated that the federal government is currently requiring refunds of 20 percent for transfers such as this where fund balances were accumulated partially with federal funds. So if \$500,000 of the balance were transferred to the general fund, roughly \$100,000 would need to be refunded to the federal government. Transferring \$600,000 out of the fund would bring it near the level it was in fiscal 2000.

In fiscal 2002, revenues funded personal services for 9.65 FTE, operating costs, and equipment. Personal services of \$352,300 were roughly 7.7 percent of expenses, equipment was \$18,000 or 0.4 percent of expenses and operating costs made up the remaining \$4,203,000 or 91.9 percent of central stores expenses. Goods purchased for resale comprised 88 percent of central stores expenses in fiscal 2002.

Rate Explanation

For the 2005 biennium, the executive requests the legislature not approve specific markup rates for central stores, but an operating parameter that limits the program from charging rates that collect more than 60 days of working capital.

Figure 6E shows the historical and anticipated rates the Central Stores Program charges. As Figure 6E shows, markups on seven high volume products finance the operating costs for the program.

Figure 6E
Historical and Anticipated Percent Markup Rates
Central Stores

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Forms	100	100	100	100	100	100
Office Supplies	40	40	20	40	40	40
Computer Paper	35	35	20	35	35	35
Fine Paper	35	35	20	35	35	35
Coarse Paper	35	35	20	35	35	35
Janitorial	35	35	20	35	35	35
Software	25	25	20	25	25	25

LFD ISSUE

Is Central Stores Needed?

The Central Stores Program uses the volume purchasing powers of state and participating local governments to obtain favorable price discounts on office supplies. The program purchases commonly used office supplies in bulk, warehouses the goods, and delivers them when ordered by a state or local government customer. To finance the purchasing, warehousing, and delivery costs, the program charges a fee in the form of a markup on certain high volume products. The markups the program charges effectively reduce the discounts the state receives from product suppliers.

Ignoring other factors, government entities that consume the office products would purchase the products whether they were supplied through the Central Stores Program or through an alternate supply channel. The key question regarding the Central Stores Program is whether the net cost of products it provides are lower than the net cost of similar products that can be purchased through alternate supply channels. In order to determine whether the Central Stores Program provides a net cost advantage, a comparison would need to be done that compares the program to alternate sources using similar products and service levels as well as similar cost components.

No formal studies have been done recently to compare the costs of providing this service through the Central Stores Program verses providing the service through term contracts directly with product suppliers. HB 73, passed by the 2001 legislature, included the Central Stores Program in a full cost accounting pilot program. The information gained from this pilot program would be one source to use in a study of this nature. However, this information only provides a portion of the data that would be needed to provide such a comparison. Two approaches could be taken to provide a complete comparison between providing the services through the Central Stores Program or an alternate source: 1) fund a formal comparison study; or 2) establish a bid process and require the Central Stores Program to bid for the contract on an even-footing with private sector suppliers. In order to confirm that the program provides the least cost alternative, the legislature may wish to consider enacting one of these two study approaches for the 2003 interim. The above study approaches could also be used for reviews of other state programs that provide services that could be readily purchased from the private sector. The Central Store Program is identified here as one program for possible review because governmental funds of \$5.0 million per year are expended through the program based on the assumption that the office supplies purchased through the program are acquired at a lower cost than are available through other alternatives. This assumption continues to be propagated without being validated in the current market climate.

Since neither of these approaches could be used (because of timing considerations) for approving rates for the 2005 biennium, the legislature may wish to have the Central Stores Program show how it provides the best product value to government office supply consumers versus other supply sources. The legislature may want to have the program show what comparisons it uses to monitor the market and verify its price advantage. To do this, the program should show:

- What products and in what volumes the products are purchased through central stores
- The methodology the program uses to compare costs that government entities would pay for the same products, delivered to the same locations, if purchased directly from the private sector through a comparable volume bases contract purchase agreements (term contracts)
- Assumptions used and adjustments made to provide a like-for-like comparison, including tax impact adjustments

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for central stores expenditures totaling \$13,208 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department. According to the historical and anticipated rate information provided by the executive, no rate changes are anticipated as a result of the adjustments proposed for the 2005 biennium.

Statewide Fueling Network Program (Fund 06561)**Program Description**

The Statewide Fueling Network Program provides for fueling of public vehicles through an integrated commercial and public fueling network. The program automates the accounting and transaction processing functions associated with vehicle fueling, maintains agency tax-exempt status for transactions anywhere on the network, and provides monthly comprehensive fuel management reports that fleet managers can use to track and control fuel costs. Customers include state government agencies and local government entities.

Revenues and Expenses

In fiscal 2002, the State Fueling Network Program had revenues of \$24,019 from an administration fee charged on fuel purchased through the network. These revenues were received from the following funding sources in the percentages and amounts listed:

- General fund (8.9 percent), \$2,141
- State special revenue (19.0 percent), \$4,564
- Federal special revenue (3.1 percent), \$734
- Proprietary funds (60.1 percent), \$14,446
- All other funds (8.9 percent), \$2,135

In fiscal 2002, revenues funded only operating costs of \$23,554 primarily for supplies, communications, and travel expenses. Personal services costs for 1.00 FTE that administered the program were funded with a general fund appropriation.

The table for fund 06561 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that with the rates requested by the executive operating losses would occur in fiscal years 2004 and 2005. The program anticipates a transfer from the general fund to maintain the solvency of the fund.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06561	Statewide Fueling Network	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Statewide Fueling Network	16,103	22,385	24,019	21,600	21,600	21,600
Net Fee Revenue	16,103	22,385	24,019	21,600	21,600	21,600
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	54	74	-	-	-	-
Total Operating Revenues	16,157	22,459	24,019	21,600	21,600	21,600
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	16,157	22,459	24,019	21,600	21,600	21,600
Operating Expenses:						
Personal Services	-	-	-	-	51,037	50,886
Other Operating Expenses	16,024	21,303	22,589	16,679	23,679	23,778
Miscellaneous, operating	312	531	965	326	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	16,336	21,834	23,554	17,005	74,716	74,664
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	16,336	21,834	23,554	17,005	74,716	74,664
Operating Income (Loss)	(179)	625	465	4,595	(53,116)	(53,064)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(179)	625	465	4,595	(53,116)	(53,064)
Contributed Capital	2,535	2,535	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	51,037	50,886
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	5,018	4,839	7,999	8,464	13,059	10,980
Net Income (Loss)	2,356	3,160	465	4,595	(2,079)	(2,178)
Retained Earnings/Fund Balances - June 30	7,374	7,999	8,464	13,059	10,980	8,802
60 days of expenses (Total Operating Expenses divided by 6)	2,723	3,639	3,926	2,834	12,453	12,444

**Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action**

	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
Vehicle Fueling Fee						
Percent of Gross						
Fuel Purchase	0.5	0.5	0.5	0.5	0.5	0.5

The Statewide Vehicle Fueling program requests that the Legislature approve an administrative fee of 0.5 percent of the gross fuel purchase for the 2005 biennium.

Rate Explanation

The Statewide Fueling Network Program requests that the legislature approve an administrative fee of 0.5 percent of the gross fuel purchases as the rate for the 2005 biennium.

LFD ISSUE

General Fund Subsidy for a Proprietary Program

Funding the personal services costs for 1.00 FTE that administers the program with general fund excludes a large portion of the costs of the program from being included in the fees for its support. Findings have been included in the last three audits for the program recommending that the cost for the personal services should be included in the calculation of costs and factored into program fees. The executive has included a request to switch funding for this FTE to funding by the statewide vehicle fueling proprietary fund. However, the rate was not adjusted to provide the revenues for this funding.

Based on information provided in the table for fund 06561, rates that would be needed to fully recover costs of the program are 1.73 percent for fiscal 2004 and 1.728 percent for fiscal 2005. The legislature may wish to approve the rates that would fully recover costs of the program without a general fund subsidy.

Significant Adjustments for the 2005 Biennium

The executive included a new proposal for an additional \$101,923 for the biennium to switch funding for an existing 1.00 FTE from general fund to funding by the state fueling network proprietary fund.

State Procurement Card Program (Fund 06571)

Program Description

The State Procurement Card Program administers the state procurement contract for the automated processing of small purchases.

Revenues and Expenses

The table for fund 06571 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows revenues from fees paid by customers of \$8,988 for fiscal 2002. Because agencies record expenditures for fees paid to the State Procurement Card Program using the same expenditure account as other maintenance contract costs, the funding of agency payments is not able to be determined. The program also receives volume discounts rebates from vendors due to the aggregation of purchases through the program.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06571	Procurement Card Purchases	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Procurement Card Fees	5,864	7,092	8,988	11,736	11,736	11,736
Net Fee Revenue	5,864	7,092	8,988	11,736	11,736	11,736
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	1,581	7,892	5,480	5,500	5,500	5,500
Total Operating Revenues	7,445	14,984	14,468	17,236	17,236	17,236
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	7,445	14,984	14,468	17,236	17,236	17,236
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	3,715	6,114	8,135	18,704	26,797	23,792
Miscellaneous, operating	8	-	0	0	0	0
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	3,723	6,114	8,135	18,704	26,797	23,792
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	3,723	6,114	8,135	18,704	26,797	23,792
Operating Income (Loss)	3,722	8,870	6,333	(1,468)	(9,561)	(6,556)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	3,722	8,870	6,333	(1,468)	(9,561)	(6,556)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	-	3,722	12,592	18,925	17,457	7,896
Net Income (Loss)	3,722	8,870	6,333	(1,468)	(9,561)	(6,556)
Retained Earnings/Fund Balances - June 30	3,722	12,592	18,925	17,457	7,896	1,340
60 days of expenses (Total Operating Expenses divided by 6)	621	1,019	1,356	3,117	4,466	3,965

Requested Rates for Internal Service Funds
Fee/Rate Information for Legislative Action

State Procurement Card	FYE00	FYE01	FYE02	FYE03	FYE04	FYE05
Monthly Fee per Card	1.00	1.00	1.00	1.00	1.00	1.00

The State Procurement Card Program requests that the Legislature approve an administrative fee rate of \$1.00 per card per month as the rate for the 2005 biennium

In fiscal 2002, program expenses totaled \$8,135 and were comprised entirely of operating costs.

**LFD
ISSUE****Personal Services are Subsidized by General Fund**

In all years shown on the report for fund 06571, only operating costs have been recorded for program expenses. However, the same 1.00 FTE that supports the Statewide Fueling Network Program also supports this program through funding from the general fund. As with the Statewide Fueling Network Program, when general fund subsidizes the costs of a proprietary funded program the fees are not commensurate with the costs to operate the program. Except for startup costs or exceptional situations, revenues of a proprietary program should support the full costs of the program.

The legislature may wish to shift the funding for the FTE supporting this program by removing it from the general fund in the HB 2 portion of the division and adjusting fees to support these shifted costs in the proprietary program.

Rate Explanation

The executive requests that the legislature approve an administrative fee rate of \$1.00 per card per month as the rate for the 2005 biennium for the State Procurement Card Program.

Significant Adjustments for the 2005 Biennium

The executive included a present law adjustment for an increase of \$34,300 for the biennium for operating cost increases. This adjustment would provide funding for:

- Programming changes to make the software that is used to track charges made with procurement cards more compatible with the state accounting system
- Replace one computer
- Travel and user education
- Increased fees for secure storage of system data on Information Technology Services Division computer storage devices

Surplus Property Program (Fund 06066)**Program Description**

The Property & Supply Bureau operates the surplus property program to administer the sale of state and federal surplus property no longer needed by agencies. The Federal Surplus program acquires surplus property from federal agencies. This property is distributed to state agencies or other eligible organizations. The surplus property programs provide a mechanism to transfer surplus property between agencies and extend the life of state property. The program provides accountability in the disposal of surplus state property, provides agencies with a surplus equipment pick up service, and provides a screening service to locate federal surplus property for state agencies and local governments.

Revenues and Expenses

The state surplus property programs receive revenues from charging a handling fee applied to the proceeds from the sale of state property. The federal surplus property program receives revenue in accordance with a federal plan of operations approved by the federal General Services Administration. In fiscal 2002 the program had operating revenues from combined federal and state handling fees of \$295,400. This is compared with expenses of nearly \$1.4 million, of which \$0.9 million was attributed to a non-cash accounting adjustment for inventory that adjusted the book value of inventory to match physical inventory. This adjustment did not occur in either fiscal year 2000 or 2001 and is not a regularly recurring expense item. The major expenses associated with the Surplus Property Program are personal services and freight to get federal property to the surplus warehouse. The program has 7.50 FTE funded through user fees. There are no projected significant changes in service volume.

The table for fund 06066 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06066	Surplus Property	61010	Dept. of Administration	General Services

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
State Surplus Property Handling Fee	-	-	-	153,000	167,000	167,000
Federal Surplus Property Handling Fee	-	-	-	130,000	17,000	17,000
Net Fee Revenue	397,991	423,334	295,399	283,000	184,000	184,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	2	4	-	-	-	-
Total Operating Revenues	397,993	423,338	295,399	283,000	184,000	184,000
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	397,993	423,338	295,399	283,000	184,000	184,000
Operating Expenses:						
Personal Services	216,221	236,359	227,448	254,921	293,514	298,374
Other Operating Expenses	269,878	238,685	1,143,839	288,652	206,254	206,253
Miscellaneous, operating	8,053	6,186	11,714	8,760	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	494,152	481,230	1,383,001	552,333	499,768	504,627
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	494,152	481,230	1,383,001	552,333	499,768	504,627
Operating Income (Loss)	(96,159)	(57,892)	(1,087,602)	(269,333)	(315,768)	(320,627)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(9,647)	(1,137)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(9,647)	(1,137)	-	-	-
Income (Loss) Before Operating Transfers	(96,159)	(67,539)	(1,088,739)	(269,333)	(315,768)	(320,627)
Contributed Capital	799,476	987,452	602,019	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	280,553	191,394	1,111,307	624,587	355,254	39,486
Net Income (Loss)	703,317	919,913	(486,720)	(269,333)	(315,768)	(320,627)
Retained Earnings/Fund Balances - June 30	983,870	1,111,307	624,587	355,254	39,486	(281,141)
60 days of expenses (Total Operating Expenses divided by 6)	82,359	80,205	230,500	92,056	83,295	84,105

**LFD
ISSUE****Declining Fund Balance**

The inventory adjustment made in fiscal 2002 and the operating income patterns for fiscal years 2003 through 2005 that are shown on the table for fund 06066 would drive the fund balance into a negative position by the end of fiscal 2005. The legislature may wish to ask the executive how they plan to address this trend.

Rate Explanation

The State Surplus Property Program retains a handling fee of 8 percent for items that are sold for more than \$150, plus extraordinary expenses if applicable. The Federal Surplus property program fees are an allocation of freight expense and 14 percent of acquisition cost. This is included in the Federal Plan of Operation, which has been approved by the federal General Services Administration.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2.00	0.00	3.00	5.00	0.00	3.00	5.00	5.00
Personal Services	93,940	14,425	353,583	461,948	14,100	0	108,040	569,988
Operating Expenses	497,212	21,709	1,926,929	2,445,850	18,722	31,386	547,320	2,993,170
Grants	0	0	0	0	0	0	0	0
Total Costs	\$591,152	\$36,134	\$2,280,512	\$2,907,798	\$32,822	\$31,386	\$655,360	\$3,563,158
General Fund	127,808	29,061	929	157,798	26,623	929	155,360	313,158
State/Other Special	0	0	0	0	0	0	0	0
Federal Special	463,344	7,073	2,279,583	2,750,000	6,199	30,457	500,000	3,250,000
Total Funds	\$591,152	\$36,134	\$2,280,512	\$2,907,798	\$32,822	\$31,386	\$655,360	\$3,563,158

Program Description

Information Technology Services Division (ITSD) is a proprietary program that manages central computing and telecommunications services for state government. ITSD provides central mainframe and mid-tier computer services, and manages the statewide data network SummitNet used by all agencies throughout the state. ITSD provides local and long-distance telephone network services used by all agencies, including the university system, and manages the state's video network METNET. ITSD coordinates electronic government services for the state, and manages the state's Internet presence at the Internet address discoveringmontana.com. ITSD also manages the Statewide Accounting, Budgeting, and Human Resources Systems (SABHRS) system for the state.

Through the office of the Chief Information Officer, the division develops the Statewide Strategic IT Plan, coordinates information technology for the state, and reviews and approves equipment and software acquisitions. The division also provides statewide information technology training, and supports consulting services contracts used by agencies in support of IT systems.

The division also coordinates Geographic Information Systems (GIS) development, manages the state's 911 programs, and coordinates Public Safety Communications issues.

Program Narrative

Department of Administration Information Technology Services Division Major Budget Highlights	
○ Total fund budget increases by \$2.8 million or 394.4 percent, with a general fund increase of \$0.06 million or 21.7 percent, from the 2003 biennium ○ 3.00 FTE are added with budgeted funds ○ A request related to public safety communications would add \$2.25 million federal funds for the biennium	
Major LFD Issues	
○ Alternatives for approving rate requests	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Information Tech Serv Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 127,808	21.6%	\$ 157,798	5.4%	\$ 155,360	23.7%
02690 Public Safety Radio	-	-	-	-	-	-
03428 Blm Gis Funding	463,344	78.4%	500,000	17.2%	500,000	76.3%
03796 Public Safety Radio	-	-	2,250,000	77.4%	-	-
Grand Total	\$ 591,152	100.0%	\$ 2,907,798	100.0%	\$ 655,360	100.0%

Funding for the division is provided primarily with a proprietary fund that is not shown on the main budget tables but is discussed in the Proprietary Rates section that follows the discussion of budget program activity. The HB 2 budgeted portion of the division is funded with general fund and federal special revenue. The division receives general fund to operate the Statewide 911 Emergency Telephone System. Federal special revenue funds GIS coordination work within the division.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					18,940					18,602
Vacancy Savings					(4,515)					(4,502)
Inflation/Deflation					197					269
Fixed Costs					20,076					17,014
Total Statewide Present Law Adjustments					\$34,698					\$31,383
DP 707 - Allocation of Indirect/Administrative Costs	0.00	1,436	0	0	1,436	0.00	1,439	0	0	1,439
Total Other Present Law Adjustments	0.00	\$1,436	\$0	\$0	\$1,436	0.00	\$1,439	\$0	\$0	\$1,439
Grand Total All Present Law Adjustments					\$36,134					\$32,822

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 707 - Allocation of Indirect/Administrative Costs - An increase of \$2,875 for the biennium is requested for increases in department indirect and administrative costs for services received from other centralized service functions of the agency.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation - HB 2										
07	0.00	929	0	0	929	0.00	929	0	0	929
DP 701 - Public Safety Communications (Biennial)										
07	3.00	0	0	2,250,000	2,250,000	3.00	0	0	0	0
DP 709 - Statewide Roadway Centerline GIS - HB 2										
07	0.00	0	0	29,583	29,583	0.00	0	0	30,457	30,457
Total	3.00	\$929	\$0	\$2,279,583	\$2,280,512 *	3.00	\$929	\$0	\$30,457	\$31,386 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Allocation - HB 2 - An increase of \$1,858 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that would provide centralized service functions for divisions of the department.

DP 701 - Public Safety Communications (Biennial) - An increase of \$2.25 million federal special revenue for the biennium is requested for public safety communications systems planning. The funding would be used to add 3.00 FTE and to develop standards to implement interoperable public safety communications systems used by state, local, and federal entities in Montana. Funding would be used to move toward integrating radio, 9-1-1, and GIS technologies for improved emergency response for the public. The executive has requested that funding for this function be approved as biennial for use in either year of the 2005 biennium.

DP 709 - Statewide Roadway Centerline GIS - HB 2 - An increase of \$60,040 federal special revenue for the biennium is requested to build, maintain, and distribute a statewide, standardized, addressed, digital transportation database. This increase would add to base expenditures and statewide present law adjustments to provide \$500,000 funding for each year of the biennium for this function. This adjustment would also be in addition to proprietary funding of \$519,599 for the biennium being requested in the proprietary rates section of this division.

Proprietary Rates

Program Description

The Information Technology Services Division (ITSD) manages the following information technology (IT) services for state government:

- Shared statewide desktop and data network services
- Central mainframe computer processing
- Mid-tier access and production services
- Local and long-distance telephone networking
- IT planning, research, and coordination
- Design, development, and maintenance support of IT applications
- Personal computer (PC) and office automation support and consultation
- Design and development of telephone equipment, networking applications, and other telecommunication needs
- Internet and intranet services
- Electronic government planning and coordination
- Central imaging
- Geographic information systems (GIS) coordination
- Disaster recovery facilities for critical data processing applications
- IT training

ITSD also manages the State Accounting, Budgeting and Human Resource System (SABHRS) operational support unit,

which is responsible for the operation and maintenance of the state budget development system (MBARS), and the PeopleSoft human resource, financial, and asset management systems.

ITSD services are enterprise and statewide in nature, and therefore agencies are required by state law to use these services. If exceptional conditions exist, agencies may be granted exceptions to meet specific agency needs. All services are offered and provided to all state and local agencies.

Funding for the ITSD is primarily from charges to state agencies for mainframe and mid-tier computer processing, desktop services, and state telephone support services as well as direct charges to state agencies and other entities. In order to coordinate state communication function, the division also receives a significant amount of "pass-through" funds paid on behalf of state agencies to communications vendors.

ITSD costs are based on predicted utilization and projects planned in all service categories. ITSD would fund 178.50 FTE in the 2005 biennium from the revenues generated in all areas.

Revenues and Expenses

In fiscal 2002, ITSD had revenues of \$29.8 million from fees paid by agencies statewide. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (34.1 percent), \$10.2 million
- o State special revenue (23.0 percent), \$6.9 million
- o Federal special revenue (22.2 percent), \$6.6 million
- o Proprietary funds (8.2 percent), \$2.5 million
- o All other funds (12.4 percent), \$3.7 million

In fiscal 2002, revenues funded personal services for 177.5 FTE and operating costs. Personal services of \$9.4 million were 31.8 percent of expenses, with operating costs making up an additional \$20.0 million or 68.2 percent of expenses. As such, personal services are a fixed cost driver for the division operations. Other major service areas of the division have additional cost components that have large impacts on their operating costs. These significant cost drivers are listed below for the major service areas of ITSD:

- o Desktop services rate - communications and software costs
- o SABHRS administration - contracted services and software expenses
- o Mainframe processing - software, supplies, depreciation, and debt service interest
- o Telephone equipment and long-distance - communication and maintenance

The table for fund 06522 shows the financial data for the fund from fiscal 2000 through fiscal 2005. The revenue and expense trends shown in this report would decrease the fund balance to roughly 13 days of annual expenses by the end of fiscal 2003. Division management recommends a 45-day working capital balance to accommodate division billing and payment cycles. Fund balance would be depleted during the 2003 biennium because of unanticipated decreases in utilization and revenue from major agencies as agencies reduce their IT expenditures in response to state revenue deficiencies.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06522	Central Data Processing	61010	Dept. of Administration	Information Technology Services Division

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Desktop Services	7,741,725	8,088,226	9,399,924	9,588,943	10,356,786	10,356,786
SABHRS Services	3,215,302	2,797,302	4,168,582	4,203,235	4,651,404	4,794,639
Long Distance	3,089,724	2,782,659	2,751,562	3,346,800	2,050,000	2,050,000
Telephone Equipment	2,375,929	2,448,851	1,767,325	1,568,000	1,780,000	1,780,000
Computer Processing	8,768,793	7,865,733	7,980,921	8,295,609	8,895,336	8,727,040
Other Charges For Services	4,306,832	3,309,649	3,743,709	4,132,941	4,014,276	4,015,738
Net Fee Revenue	29,498,305	27,292,420	29,812,023	31,135,528	31,747,802	31,724,203
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	8,774	24,702	14,791	-	-	-
Total Operating Revenues	29,507,079	27,317,122	29,826,814	31,135,528	31,747,802	31,724,203
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	29,507,079	27,317,122	29,826,814	31,135,528	31,747,802	31,724,203
Operating Expenses:						
Personal Services	8,798,842	8,855,390	9,438,781	9,300,556	9,943,821	9,936,987
Other Operating Expenses	19,234,310	17,914,862	19,786,929	22,306,704	20,369,487	20,416,601
Miscellaneous, operating	494,071	275,569	484,526	479,057	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	28,527,223	27,045,821	29,710,236	32,086,317	30,313,308	30,353,588
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	28,527,223	27,045,821	29,710,236	32,086,317	30,313,308	30,353,588
Operating Income (Loss)	979,856	271,301	116,578	(950,789)	1,434,494	1,370,615
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	23,266	(6,032)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	23,266	(6,032)	-	-	-	-
Income (Loss) Before Operating Transfers	1,003,122	265,269	116,578	(950,789)	1,434,494	1,370,615
Contributed Capital	1,592,495	1,592,495	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	(44,430)	(338,184)	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	814,614	440,633	1,960,213	2,076,791	1,126,002	2,560,496
Net Income (Loss)	2,551,187	1,519,580	116,578	(950,789)	1,434,494	1,370,615
Retained Earnings/Fund Balances - June 30	3,365,801	1,960,213	2,076,791	1,126,002	2,560,496	3,931,111
60 days of expenses (Total Operating Expenses divided by 6)	4,754,537	4,507,637	4,951,706	5,347,720	5,052,218	5,058,931
45 days of expenses (Total Operating Expenses divided by 8)	3,565,903	3,380,728	3,713,780	4,010,790	3,789,164	3,794,199

Responses from a data connection survey requested from each agency are used to determine the utilization rate used in the rate development. When these projections are not met by the agency, ITSD under recovers its costs and would either recover more from other service categories or reduce expenditures by reducing services provided for all.

SABHRS utilization is currently not tracked and based on projected expenses. Based on past trends and agency input, mainframe processing is expecting an approximate 2 percent decrease over the 2005 biennium.

Telephone equipment utilization is projected from base year volume. Long-distance utilization is anticipated to decrease by approximately 30 percent from projected fiscal 2003 levels due primarily to university system student long-distance no longer participating with this program and increased use of cell phones and phone cards.

Variations in expense patterns result from software purchase expenses and equipment depreciation expenses. Software purchase expenses are high in the initial purchase year and then only include fixed maintenance costs for subsequent years. Equipment depreciation expenses vary when decreases of depreciation costs for existing equipment with expiring depreciation cycles differ from depreciation costs on new equipment.

Rate Explanation

ITSD is requesting the legislature approve rates for the 2005 biennium based on the following statement:

"Information Technology Services Division seeks the ability to continue to charge various rates in order to maintain 45-day working capital, except that the desktop rate may not exceed \$72.60 per connection per month or the amount that was budgeted in an agency budget, whichever is more."

LFD COMMENT

Meaning of Rate for ITSD

The 2001 legislature approved the following rates for ITSD:

- Data Network Fee - \$72.60 per connected terminal per month
- Statewide Accounting, Budgeting, and Human Resources System (SABHRS) Allocation to Agencies - \$4,168,460 in fiscal 2002 and \$4,211,734 in fiscal 2003
- All remaining operations of the division - 45-day working capital reserve

However, when state agencies are billed for ITSD services, they are charged the service specific rates listed in Figure 7A. If the legislature approved the rates as requested by ITSD, the division would have flexibility to increase, without a maximum limit, these service specific rates, except that the desktop rate would be limited to \$72.60 per connection per month. The following factors would likely result in higher rates than those charged in the 2003 biennium and those that are anticipated for the 2005 biennium:

- ITSD anticipates increasing the service specific rates to offset losses from the 2003 biennium and to increase working capital to 43 days
- ITSD rates for the 2003 biennium were allocated to agencies with the second

phase of the Process Oriented Integrated Tax System (POINTS II) and the State Fund included in the allocation distribution. The development of POINTS II has been abandoned and the potential exists that the State Fund would not participate in ITSD computer services. With POINTS II or the State Fund removed from the ITSD customer base, an increase in rates or further adjustments would be expected.

Figure 7A
Information Technology Services Division
2005 biennium
Anticipated Rates and Growth Factors

Service Center	Service Name	Fiscal 2002	Change from Fiscal 2002	Fiscal 2004	Change from Fiscal 2002	Fiscal 2005
Mainframe	Batch CPU	\$ 1.1293	10%	\$ 1.2422	10%	1.2422
	CICS CPU	0.2278	10%	0.2506	10%	0.2506
	IDMS CPU	0.8080	10%	0.8888	10%	0.8888
	IDMS/CICS	0.2780	10%	0.3058	10%	0.3058
	IDMS/ADS	0.6146	10%	0.6760	10%	0.6760
	TSO CPU	1.3833	10%	1.5216	10%	1.5216
	Tape megabytes	0.030	-100%	-	-100%	-
	Tape storage archive	0.003	-100%	-	-100%	-
	Disk storage	0.0115	10%	0.0127	10%	0.0127
	SYSIN read/write	0.1062	10%	0.1168	10%	0.1168
	Disk read/write	0.1062	10%	0.1168	10%	0.1168
	Tape read/write	0.4005	10%	0.4406	10%	0.4406
Midtier	Midtier (including central imaging)	2,689,945	10%	2,946,098	12%	3,001,932
Print	Laser	0.0261	30%	0.0339	30%	0.0339
LAN admin	LAN administration	50	20%	60	20%	60
Desktop	Desktop service	72.60	0.0%	72.60	0.0%	72.60
VPN	ISP/VPN	New Service	N/A	25	N/A	25
	VPN	New Service	N/A	10	N/A	10
Video	Video conf/subscriptions	35	0%	35	0%	35
Voice	Equipment	15	33%	20	33%	20
	Long distance	0.135	-22%	0.105	-22%	0.105
	IVR	120	46%	175	46%	175
	Voice mail	5	0%	5	0%	5
	Megacom	0.1	0%	0.1	0%	0.1
SABHRS	SABHRS	4,168,461	12%	4,651,404	15%	4,794,640

**LFD
ISSUE****Working Capital Rate Doesn't Match Operations**

Figure 7A, on the previous page, shows that the revenue derived from ITSD service charges are divided into nine service centers. These centers are groupings of functionally different services provided by ITSD. Each service center has separate operational characteristics that distinguish it from the other centers and often serves uniquely different customer bases. Figure 7B shows by SABHRS expenditure account the number of agencies and the amount of payments for ITSD service charges. Figure 7B shows that some services are used by most state agencies, while other services are used by only some agencies. While most agencies make payments for telephone equipment and long distance, less than half pay for central processing unit (CPU) time and data storage. ITSD has proposed rates that would provide flexibility to adjust rates in any or all centers, except possibly the desktop service center, to subsidize the operations of other centers.

With this, the legislature may wish to consider approving separate rates for each service or at least rates that more closely link revenues to the service centers financed by the charges. One segregation the 2001 legislature made was to approve a separate rate for SABHRS administration and not bundle it with the working capital rate it approved for the remainder of the operations not supported with the data network rate. This same segregation could also be done along with approving separate rates for the voice and video service centers. In addition to limiting the desktop rate as recommended by the executive, the legislature may want to approve separate rates for SABHRS, voice, and video. With this, the network and other statewide computer functions would be the only services to remain under the requested 45-day working capital rate. It could be argued that the network and computer functions of the division are the areas with the least amount of functional difference and the most common customer base. Also,

approving a working capital rate would provide the division the flexibility to respond to the usage changes that impact the division's costs and revenues and are driven by decisions of ITSD customers, not ITSD. This flexibility would not inhibit the division's ability to adapt to these usage changes or adversely impact the financial viability of the fund.

Figure 7B
Payments for ITSD Services
Fiscal 2002

Service (SABHRS Expenditure Account Names)	Agencies Paying	Payments All Funds
Tape Storage Charges/DOA	17	\$ 25,376
Disk Storage Charges/DOA	24	900,096
SABHRS Administrative Costs	41	4,033,751
Read/Write Computer Trans/DOA	33	447,718
Batch CPU Seconds/DOA	38	1,759,861
Data Network Serv/DOA	38	8,987,494
TSO CPU Seconds/DOA	17	343,627
IDMS CPU Seconds/DOA	22	2,026,177
CICS CPU Seconds/DOA	23	154,086
Telephone Equip Chrg/DOA	45	3,806,321
Long Distance Chrg/DOA	46	3,724,972

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for ITSD expenditures totaling \$2.3 million for the 2005 biennium. No information was provided to determine the impacts each separate adjustment would have on rates of ITSD.

Adjustments included in the rate request are:

- o A net increase totaling \$521,281 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$654,822 for the biennium for increases in communication expenses, software and equipment maintenance expenses, and debt service
- o A reduction of \$232,867 for the biennium to eliminate funding for 3.00 FTE. The positions associated with this reduction are no longer active
- o An increase of \$106,190 for the biennium to add funding for 1.00 FTE computer security specialist to handle increased workloads related to state computer system virus protection
- o An increase of \$105,865 for the biennium to add funding for 1.00 FTE training coordinator to help coordinate technology training for ITSD and state agencies; identify and acquire appropriate forms of training such as manuals, computer-based training resources, web-based training, and instructor-led training; provide information and support to agencies regarding applicable training for their employees to progress through a career ladder; manage all training contracts; create and design marketing materials, promotional materials and other items for customer relations purposes; coordinate the development,

printing and/or online publishing of documents for the division; and provide design options and input into the user interface of the state intranet applications

- An increase of \$630,503 for the biennium to add 1.00 FTE IT and business systems analysis to provide support and staff assistance in agency project management for IT projects and to develop an IT project management program for the state
- An increase of \$518,449 for the biennium to add 1.00 FTE transportation data coordinator and operating costs to build, maintain, and distribute a statewide, standardized, addressed, digital transportation database

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	24.25	0.00	5.50	29.75	0.00	5.50	29.75	29.75
General Services	1,042,064	332,264	215,911	1,590,239	330,802	215,287	1,588,153	3,178,392
Operating Expenses	458,121	81,227	71,476	610,824	114,938	71,199	644,258	1,255,082
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$1,500,185	\$413,491	\$287,387	\$2,201,063	\$445,740	\$286,486	\$2,232,411	\$4,433,474
State/Other Special	1,500,185	413,491	287,387	2,201,063	445,740	286,486	2,232,411	4,433,474
Total Funds	\$1,500,185	\$413,491	\$287,387	\$2,201,063	\$445,740	\$286,486	\$2,232,411	\$4,433,474

Program Description

The Banking and Financial Institutions Division licenses, supervises, regulates, and examines a variety of financial institutions operating in Montana such as:

- State-chartered banks, trust companies, savings and loans, and credit unions
- Consumer loan and sales finance companies
- Escrow companies
- Foreign capital depositories in accordance with Title 32, MCA
- Deferred deposit loan companies

The purpose of the supervisory function is to investigate the methods of operation in order to determine whether these institutions are operating in a safe and sound fiscal manner. Supervision of regulated financial business is accomplished through on-site safety and soundness examinations conducted by division examiners. The division also provides a consumer complaint process to resolve matters with the regulated financial institutions.

The State Banking Board is administratively attached to the division. The board is responsible for making final determinations of applications for new bank charters and foreign capital depository charters; hearing appeals of division decisions on branch bank, merger, or relocation applications; and acting in an advisory capacity with respect to the duties and powers given by statute or otherwise to the department as the duties and powers relate to banking and to the regulation of foreign capital depositories.

Program Narrative

Department of Administration Banking and Financial Division Major Budget Highlights	
○ Total fund budget increases \$1.4 million or 46.0 percent (no general fund) from the 2003 biennium ○ 5.50 FTE are added	
Major LFD Issues	
○ Impacts of 46.0 percent increase on fund balance ○ Broadband pay plan increases are built into the base and requested again	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Banking And Financial Division						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
02077 Financial Institutions Div	\$ 1,500,185	100.0%	\$ 2,201,063	100.0%	\$ 2,232,411	100.0%
02094 Foreign Capital Depository	-	-	-	-	-	-
Grand Total	<u>\$ 1,500,185</u>	<u>100.0%</u>	<u>\$ 2,201,063</u>	<u>100.0%</u>	<u>\$ 2,232,411</u>	<u>100.0%</u>

The division is funded solely by state special revenue through assessments, application fees, and examination fees paid by the regulated financial institutions.

**LFD
ISSUE****Impacts on Fund Balance**

If all adjustments of the executive were approved, the division budget for the 2005 biennium would increase by \$1.4 million over the 2003 biennium, for an increase of 46 percent. The division is funded entirely from fees paid by the financial industry for which the division provides oversight and regulation. Appropriations in fiscal 2003 exceed anticipated revenues by \$179,263. The fund balance at the end of fiscal 2002 was \$1.2 million. The imbalance between revenues and expenditures in the 2005 biennium would reduce the fund balance to a more appropriate level of \$458,257 by the end of fiscal 2005 or 19 percent of annual expenditures.

However, the legislature should be aware of the long-term ramifications to the fund. All adjustments would become ongoing program expenditures that would have to be funded with ongoing revenues. For the 2005 biennium, the imbalance of revenues and expenditures can be addressed by drawing down the fund balance that now exists. After the 2005 biennium, the fund balance would be nearly depleted and not available to address the large imbalance between ongoing revenues and ongoing expenditures. The 2005 legislature would then need to either reduce program expenditures or increase fees to finance ongoing operations.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					244,734					243,212
Vacancy Savings					(51,470)					(51,410)
Inflation/Deflation					1,626					2,653
Fixed Costs					20,046					21,409
Total Statewide Present Law Adjustments					\$214,936					\$215,864
DP 1401 - Indirect Administrative Costs	0.00	0	(40,513)	0	(40,513)	0.00	0	(40,514)	0	(40,514)
DP 1402 - Financial Institution Examiner Career Ladder	0.00	0	139,000	0	139,000	0.00	0	139,000	0	139,000
DP 1403 - Rent Increase for the Helena Office	0.00	0	79,392	0	79,392	0.00	0	81,252	0	81,252
DP 1405 - Fund Accreditation Review of the Division	0.00	0	0	0	0	0.00	0	28,000	0	28,000
DP 1406 - Lease Motor Pool Vehicles	0.00	0	20,676	0	20,676	0.00	0	22,138	0	22,138
Total Other Present Law Adjustments	0.00	\$0	\$198,555	\$0	\$198,555	0.00	\$0	\$229,876	\$0	\$229,876
Grand Total All Present Law Adjustments					\$413,491					\$445,740

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1401 - Indirect Administrative Costs - A reduction of \$81,027 state special revenue for the biennium is requested for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency.

DP 1402 - Financial Institution Examiner Career Ladder - An increase of \$278,000 state special revenue for the biennium is requested to fund additional personal services costs to moved its financial institution examination personnel to a professional financial institution examiner career ladder plan. Movement to the career ladder plan is proposed to address recruitment and retention concerns.

**LFD
ISSUE**

The Broadband Plan Increases are in the Statewide Present Law Adjustment for Some FTE

The division would have 29.75 FTE if funding for all FTE additions are approved by the legislature. For 29.75 FTE this adjustment would equal \$4,672 per year or \$2.23 per hour per FTE. When considering this adjustment, the legislature may wish to consider salary increases received by 19 people in division positions when it implemented the career ladder.

To implement the career ladder the division moved positions to the alternative classification and compensation system developed by the State Personnel Division of the department. The alternative classification and compensation system the division adopted is called the broadband plan and is authorize in state law. The division moved most of the positions to this pay plan effective February 2, 2002, and in turn awarded pay adjustments to 19 people holding position in the division an average of \$2.80 per hour for each individual. Increases for those receiving these raises ranged from 2.8 percent to 31.4 percent. Annualized, the hourly raises equal \$111,600 and are in addition to the statewide pay increases of 4 percent authorized by the legislature in HB 13 (the pay plan bill of the 2001 legislature). The HB 13 raises have subsequently been awarded to those who received the earlier broadband plan increases. The broadband plan raises were not funded by the legislature, so they were provided with existing budget authority at the expense of other undeterminable program functions or through their own internal vacancy savings.

Because these increases were provided prior to the budget development snapshot taken at the end of June 2002, they are built into the personal services budget as if the legislature had authorized the funding. These increases then become an ongoing expense. Since the budget development snapshot, broadband pay raises were given to 6 people that averaged \$1.51 per hour per person. These increases would not have been built into the personal services budget, except via this decision package. Annualized, these pay raises equal about \$38,000 for the biennium.

The legislature may want to consider reducing the amount of this request, such as to the amount for the pay raises given after the budget snapshot.

DP 1403 - Rent Increase for the Helena Office - An increase of \$160,644 state special revenue is requested to pay for increased rent costs for office space in the old federal building in Helena. Monthly rent is increasing because the rent for the old federal building is higher than the rent of the building the division vacated after the end of the base year.

DP 1405 - Fund Accreditation Review of the Division - An increase of \$28,000 state special revenue in fiscal 2005 is requested to fund an accreditation assessment performed by the Conference of State Bank Supervisors. Funding would pay for accreditation team expenses during their on-site assessment of the division, preparation of the report of findings and recommendation, and costs of the meeting of the accreditation committee.

DP 1406 - Lease Motor Pool Vehicles - An increase of \$42,814 state special revenue for the biennium is requested to lease four additional passenger vehicles from the State Motor Pool beginning in fiscal 2004. This funding would allow the division to replace two division owned vehicles and would add two other vehicles for use by bank examiners who currently use personal vehicles.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation - HB 2										
14	0.00	0	22,078	0	22,078	0.00	0	22,101	0	22,101
DP 1404 - Restore OTO from '03 Biennium - 1.50 FTE										
14	1.50	0	66,925	0	66,925	1.50	0	66,782	0	66,782
DP 1407 - 4.00 FTE Bank Examiners										
14	4.00	0	198,384	0	198,384	4.00	0	197,603	0	197,603
Total	5.50	\$0	\$287,387	\$0	\$287,387 *	5.50	\$0	\$286,486	\$0	\$286,486 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Allocation - HB 2 - An increase of nearly \$44,179 state special revenue for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

DP 1404 - Restore OTO from '03 Biennium - 1.50 FTE - An increase of \$133,707 state special revenue for the biennium is requested to fund the addition of 1.50 FTE bank examiners.

LFD COMMENT

FTE Removed by 2001 Legislature

The division had 4.50 FTE removed during the 2001 legislature. Of these, 3.00 FTE were transferred to the Governor's Office of Economic Development via SB 445 and 1.50 FTE were removed because the positions have been vacant for an extended time.

DP 1407 - 4.00 FTE Bank Examiners - An increase of \$395,987 state special revenue for the biennium is requested for funding to add 4.00 FTE bank examiners and associated operating costs to address workload increases. Operating costs would fund the purchase of office equipment, rent, and travel.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL. Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL. Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	31.50	0.00	0.00	31.50	0.00	0.00	31.50	31.50
Personal Services	1,265,659	57,085	0	1,322,744	56,466	0	1,322,125	2,644,869
Operating Expenses	4,947,142	899,351	185,728	6,032,221	951,319	25,715	5,924,176	11,956,397
Equipment	462,735	(414,000)	0	48,735	(414,000)	0	48,735	97,470
Debt Service	1,145,577	0	0	1,145,577	(1,145,577)	0	0	1,145,577
Total Costs	\$7,821,113	\$542,436	\$185,728	\$8,549,277	(\$551,792)	\$25,715	\$7,295,036	\$15,844,313
Proprietary	7,821,113	542,436	185,728	8,549,277	(551,792)	25,715	7,295,036	15,844,313
Total Funds	\$7,821,113	\$542,436	\$185,728	\$8,549,277	(\$551,792)	\$25,715	\$7,295,036	\$15,844,313

Program Description

The Montana State Lottery designs and markets lottery games that allow players to purchase chances to win prizes. The lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. A five-member lottery commission, appointed by the Governor, sets policy and oversees program activities and procedures. The net revenue, after prizes, sales commissions and operating expenses, is deposited in the state general fund on a quarterly basis.

Program Narrative

Department of Administration Montana State Lottery Major Budget Highlights
○ Budget decreases by \$0.8 million or 4.6 percent from the 2003 biennium
Major LFD Issues
○ Methodology for determining revenues from increased lottery expenses

The primary mission of the lottery is to maximize the transfer of its net revenue to the state's general fund. The lottery has established goals to transfer \$7.0 million in fiscal 2004 and \$7.2 million in fiscal 2005 to the general fund. To achieve these goals, the program offers a variety of games of chance that the program constantly changes to produce revenue for the general fund. In order to introduce a new game the lottery must purchase supplies and promotional materials for the game. The primary market research approach of the lottery is to use games that other states' lotteries have used to generate revenues for their states. The lottery states that they monitor the performance of games to determine if they are successfully generating more revenues than they are costing to operate.

However, when asked, the lottery was unable to provide revenue projections for any given game. The legislature may want to ask the lottery to explain how it is able to project overall revenues that would be transferred to the general fund without first identifying planned games it anticipates offering, and estimating their costs and expected revenues. Because the lottery must spend money in anticipation of generating more revenue than is spent to generate the revenue, the legislature may wish to have the lottery describe:

- Its methodology for determining which games it will offer
- How it determines when to offer new games
- How it determines which games to retire or continue to offer
- How it projects annual net revenues

- How the requested budget increases translate into increased general fund revenues

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Montana State Lottery						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
06001 State Lottery Fund	\$ 7,821,113	100.0%	\$ 8,549,277	100.0%	\$ 7,295,036	100.0%
Grand Total	\$ 7,821,113	100.0%	\$ 8,549,277	100.0%	\$ 7,295,036	100.0%

The lottery is funded entirely with proprietary funds derived from lottery game revenues. Net revenues of the lottery are by state law transferred to the general fund. Therefore, the lottery is indirectly funded with general fund.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					110,897					110,255
Vacancy Savings					(55,062)					(55,039)
Inflation/Deflation					3,848					4,456
Fixed Costs					67,784					(8,441)
Total Statewide Present Law Adjustments					\$127,467					\$51,231
DP 1501 - Indirect Fixed Costs										
	0.00	0	0	0	(42,327)*	0.00	0	0	0	(42,285)*
DP 1502 - Per Diem for Lottery Commissioners										
	0.00	0	0	0	1,250 *	0.00	0	0	0	1,250 *
DP 1504 - Eliminate Debt Service Expense for FY 05										
	0.00	0	0	0	0	0.00	0	0	0	(1,145,577)*
DP 1505 - Product Costs Increase										
	0.00	0	0	0	391,326 *	0.00	0	0	0	529,557 *
DP 1506 - Increase Base for Rent										
	0.00	0	0	0	6,920 *	0.00	0	0	0	8,232 *
DP 1507 - Equipment replacement										
	0.00	0	0	0	22,800 *	0.00	0	0	0	10,800 *
DP 1509 - Retailer Support										
	0.00	0	0	0	35,000 *	0.00	0	0	0	35,000 *
Total Other Present Law Adjustments										
	0.00	\$0	\$0	\$0	\$414,969 *	0.00	\$0	\$0	\$0	(\$603,023)*
Grand Total All Present Law Adjustments					\$542,436 *					(\$551,792)*

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1501 - Indirect Fixed Costs - A reduction of \$84,612 lottery proprietary funds for the biennium is recommended for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency.

DP 1502 - Per Diem for Lottery Commissioners - An increase of \$2,500 lottery proprietary funds for the biennium is requested to fund per diem for lottery commissioners. By statute, lottery commissioners are paid \$50 per diem for each day engaged in duties related to the Lottery and the commission is required to meet at least quarterly.

DP 1503 – Transfer Funds from Equipment to Goods Purchase Resale – An adjustment that would have no fiscal impact for the biennium is recommended to move \$828,000 funding for the biennium from the equipment expense category to operating expenses to purchase inventories of instant tickets.

DP 1504 - Eliminate Debt Service Expense for FY 05 - A reduction of \$1,145,577 lottery proprietary fund in fiscal 2005 is recommended to remove budget authority included in the base for debt service payments that would no longer be needed after fiscal 2004.

DP 1505 - Product Costs Increase - An increase in product costs of \$920,883 lottery proprietary fund for the biennium is requested to: 1) purchase supplies of instant lottery tickets; 2) pay increased contract costs to the vendor who operates the lottery's computerized terminal system; and 3) to participate in a televised game show.

LFD COMMENT

Use of Funds

According to the lottery, it would purchase scratch and instant win tickets that would be used to keep the lottery "fresh" and exciting and increase participation and interest. The lottery continues to change games and offer desired products to prevent decline of sales revenue. The lottery also anticipates offering a televised game show, where participation is determined as a prize on an instant ticket. This game is a multi-state game operated by the Multi-State Lottery Association, the entity that operates Powerball, Hot Lotto and Wild Card. Participation in the game show would add \$47,500 per year in dues that cover the operating costs of the program.

DP 1506 - Increase Base for Rent - An increase of \$15,152 in lottery proprietary funds for the biennium is requested for increased rent costs for the lottery office and warehouse space.

DP 1507 - Equipment replacement - An increase of \$33,600 in lottery proprietary funds for the biennium is requested to replace or update computer equipment, printers, the on-line gaming system, and software. The computer equipment that makes up the on-line gaming system connects each retail outlet with the lottery. The equipment tracks sales, calculates payouts, and handles retailer accounting.

DP 1509 - Retailer Support - An increase of \$70,000 in lottery proprietary funds for the biennium is requested to purchase additional customer display units, point of sale posters and advertisements, and play stations that hold information and play slips for lotto games for use at lottery retail outlets.

LFD ISSUE

Retailer Support Not Mandatory

The lottery has purchased customer display units, point of sale posters and advertisements, and play stations for existing retailers selling lottery tickets for a commission. The additional purchases would be for materials for new retail locations and to replace existing materials that are worn out or out of date. These materials are not mandatory for the lottery, but according to the lottery, increase consumer awareness and therefore increase revenues. Since these expenses increase operating costs and therefore reduce net revenues that are transferred to the general fund they should only be made if net revenues are increased as a result of the expenses.

The legislature may wish to ask the lottery to quantify the amount of increased net revenues that would be expected from these operating costs. The legislature may also wish to have the lottery show how these increased revenues were determined and the measures in place to verify these expenses generate the increased net revenues.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General	State Special	Federal Special	Total Funds		General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation-HB2										
15	0.00	0	0	0	25,728 *	0.00	0	0	0	25,715 *
DP 1508 - Professional Service Contracts (Rstrcted/Bien/OTO)										
15	0.00	0	0	0	160,000 *	0.00	0	0	0	0
Total	0.00	\$0	\$0	\$0	\$185,728 *	0.00	\$0	\$0	\$0	\$25,715 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Allocation-HB2 - An increase of \$51,443 lottery proprietary fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

DP 1508 - Professional Service Contracts (Rstrcted/Bien/OTO) - An increase of \$160,000 lottery proprietary fund is requested for fiscal 2004 to hire a consultant to analyze the current on-line gaming system for performance, life expectancy, and maintenance costs. The consultant would also be tasked to determine the availability of replacement systems and the advantages or disadvantages of replacing the system when the seven-year, operating contract with an outside vendor expires in March 2006. The executive recommends that appropriations for this request be designated as biennial, one-time-only, and restricted only for expenses for the purposes stated.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	21.66	0.00	(1.13)	20.53	0.00	(1.13)	20.53	20.53
Personal Services	909,750	115,194	(45,005)	979,939	114,374	(44,872)	979,252	1,959,191
Operating Expenses	244,733	1,786	11,098	257,617	4,400	11,999	261,132	518,749
Total Costs	\$1,154,483	\$116,980	(\$33,907)	\$1,237,556	\$118,774	(\$32,873)	\$1,240,384	\$2,477,940
General Fund	1,127,130	116,980	(36,949)	1,207,161	118,774	(36,820)	1,209,084	2,416,245
State/Other Special	27,353	0	3,042	30,395	0	3,947	31,300	61,695
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$1,154,483	\$116,980	(\$33,907)	\$1,237,556	\$118,774	(\$32,873)	\$1,240,384	\$2,477,940

Program Description

The State Personnel Division provides state agencies with a comprehensive program of human resource management programs including training, position classification and pay, collective bargaining, employee relations, and assistance with compliance with state and federal employment law. The division publishes state rules, standards, and policies relating to recruitment, selection, discipline, grievance, performance appraisal, leave, and other personnel matters. The division administers benefits plans including health, life, long-term care, dental, and vision insurance, flexible spending accounts, a sick leave fund, employee incentive awards, health promotion, and a voluntary employee benefit health care expense trust. In addition, the division administers a lease and contract to provide day care services for Helena area state employees. The division also prepares, maintains, and distributes payroll for all state employees.

Program Narrative

Department of Administration State Personnel Division Major Budget Highlights	
○ Total fund budget increases by \$151,000 or 6.5 percent with a general fund increase of \$144,000 or 6.4 percent ○ 1.13 FTE are eliminated ○ New recruitment advertising initiative ○ Payroll processing rates increase by more than 20 percent ○ Operating losses for the Employee Benefits Program due to high medical and drug claims	
Major LFD Issues	
○ State subsidy for daycare ○ Impacts of budget reductions on demand for Profession Development Center services and revenues	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

**Program Funding Table
State Personnel Division**

<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 1,127,130	97.6%	\$ 1,207,161	97.5%	\$ 1,209,084	97.5%
02518 State Daycare Program	27,353	2.4%	30,395	2.5%	31,300	2.5%
06590 State Recruitment Advertising	-	-	-	-	-	-
Grand Total	\$ 1,154,483	100.0%	\$ 1,237,556	100.0%	\$ 1,240,384	100.0%

Funding for general personnel administration functions is from the general fund. The Employee Benefits Bureau is funded from the investment earnings of the state employees benefits fund. The Employee Benefits Bureau also receives a minor general fund appropriation for administration of the employee incentive program and sick leave administration. The Professional Development Center is funded with proprietary fees charged to state agencies for training services. The State Payroll Unit is funded with proprietary fees charged to state agencies for payroll processing services. The proprietary funded portions of the division are not shown on the main budget tables, but are discussed in the Proprietary Rates at the end of the section for the division.

-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				157,900					157,046
Vacancy Savings				(42,706)					(42,672)
Inflation/Deflation				1,748					1,939
Fixed Costs				2,992					5,446
Total Statewide Present Law Adjustments				\$119,934					\$121,759
DP 2307 - Indirect Cost Allocation - HB0002									
0.00	(2,954)	0	0	(2,954)	0.00	(2,985)	0	0	(2,985)
Total Other Present Law Adjustments									
0.00	(\$2,954)	\$0	\$0	(\$2,954)	0.00	(\$2,985)	\$0	\$0	(\$2,985)
Grand Total All Present Law Adjustments				\$116,980					\$118,774

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2307 - Indirect Cost Allocation - HB0002 - A reduction of \$5,939 general fund for the biennium is recommended for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation-HB2										
23	0.00	8,056	190	0	8,246	0.00	8,052	190	0	8,242
DP 2304 - Lease Rate for State Sponsored Daycare										
23	0.00	0	2,852	0	2,852	0.00	0	3,757	0	3,757
DP 2306 - Eliminate 1.13 vacant FTE										
23	(1.13)	(45,005)	0	0	(45,005)	(1.13)	(44,872)	0	0	(44,872)
Total	(1.13)	(\$36,949)	\$3,042	\$0	(\$33,907)*	(1.13)	(\$36,820)	\$3,947	\$0	(\$32,873)*

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Allocation-HB2 – Increases of \$16,108 general fund and \$380 state special revenue for the biennium are requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

DP 2304 - Lease Rate for State Sponsored Daycare - An increase of \$6,609 state special revenue for the biennium is recommended to fund anticipated rent increases for the state sponsored daycare center in Helena.

LFD ISSUE

Equity of Benefit for State Support of Daycare

There is a daycare center located in an old school vacated by the Helena School District. The daycare center is in close proximity to the Capitol Complex. For the 2001 and 2003 biennia, the Department of Administration, through an appropriation of the legislature, has paid the rent costs for the daycare facility as a benefit for state employees. Funding for the rent payments comes from state agency contributions based on the number of Helena area employees. On March 1, 2001, the daycare center began accepting children from the public in addition to children of state employees. However, the center does provide a preference first for children of state employees and then to state employees' grandchildren.

By providing state support for a portion of the operating costs of this center, the center can charge lower rates than it would without the subsidy. In fiscal 2002, the subsidy was \$27,353 or \$275 per child for the year at the 100-child capacity of the facility. If the legislature approves this request the subsidy would increase to \$304 in fiscal 2004 and \$313 in fiscal 2005 for each child.

Subsidized rates provide: 1) a state-funded competitive advantage for one private business over other private daycares; 2) a tax-free benefit to some state employees that is not equitably afforded to all state employees; and 3) a daycare subsidy for some private citizens that is not based on need and is not equally available to others. Without the subsidy, the daycare still provides an intangible benefit to state employees because of its close proximity to the capitol complex.

Options

- Eliminate the state subsidy for the daycare
- Take no action

DP 2306 - Eliminate 1.13 vacant FTE - A reduction of \$89,877 general fund for the biennium is recommended to remove funding for 1.13 FTE that are currently vacant and being used to provide vacancy savings.

Proprietary Rates

Program Description

The State Personnel Division manages four proprietary programs: 1) the training program, also referred to as the Professional Development Center; 2) the employee benefits program, which includes the state's health and other benefit insurance plans; 3) the state payroll and benefits operations program; and 4) the flexible spending accounts program.

Training Program (Fund 06525)

Program Description

The Professional Development Center (PDC) provides training and other services, such as facilitation, mediation, and curriculum design, to state agencies on a fee reimbursement basis. The use of PDC training is not mandatory for agencies that could choose from several available alternatives, such as seminars sponsored by national training firms, conferences and symposia, contracted training consultants, in-house training programs, and courses through post-secondary education institutions.

Revenues and Expenses

In fiscal 2002, the Professional Development Center had revenues of \$260,557 from fees paid by agencies statewide. The funding for customer payments to the PDC could not be determined because the accounting code used to record payments to the PDC for training is also used to record a variety of other training costs.

In fiscal 2002, revenues funded personal services for 3.08 FTE and operating costs. Personal services of \$151,136 were 51.5 percent of expenses, with operating costs making up the remaining \$142,316 or 48.5 percent of PDC expenses.

The table for fund 06525 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows the program experienced an operating loss equivalent to 11.1 percent of expenses in fiscal 2002. Operating losses are also predicted for fiscal years 2003 and 2004, but the program is expected to return positive net income in fiscal 2005. These operating projections would leave the fund balance at about 18 days of annual expenses at the end of the 2005 biennium.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Report on Internal Service and Enterprise Funds, 2005 Biennium								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06525	Personnel Training	61010	Dept. of Administration	Professional Development Center				
			actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:								
Fee revenue								
Fees from Training Services								
			235,807	312,530	260,557	260,095	269,458	279,197
Net Fee Revenue								
			235,807	312,530	260,557	260,095	269,458	279,197
Investment Earnings								
			-	-	-	-	-	-
Securities Lending Income								
			-	-	-	-	-	-
Premiums								
			-	-	-	-	-	-
Other Operating Revenues								
			272	135	285	-	-	-
Total Operating Revenues								
			236,079	312,665	260,842	260,095	269,458	279,197
Intrafund Revenue								
			-	-	-	-	-	-
Net Operating Revenues								
			236,079	312,665	260,842	260,095	269,458	279,197
Operating Expenses:								
Personal Services								
			140,511	146,295	151,136	149,755	153,378	153,780
Other Operating Expenses								
			88,885	87,775	120,894	89,520	113,126	113,639
Miscellaneous, operating								
			6,374	2,285	21,422	36,288	8,822	9,006
Miscellaneous, other								
			-	-	-	-	-	-
Total Operating Expenses								
			235,770	236,355	293,452	275,563	275,326	276,425
Intrafund Expense								
			-	-	-	-	-	-
Net Operating Expenses								
			235,770	236,355	293,452	275,563	275,326	276,425
Operating Income (Loss)								
			309	76,310	(32,610)	(15,468)	(5,868)	2,772
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets								
			-	(550)	-	-	-	-
Federal Indirect Cost Recoveries								
			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)								
			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)								
			-	(550)	-	-	-	-
Income (Loss) Before Operating Transfers								
			309	75,760	(32,610)	(15,468)	(5,868)	2,772
Contributed Capital								
			600	600	-	-	-	-
Operating Transfers In (Note 13)								
			-	-	-	-	-	-
Operating Transfers Out (Note 13)								
			-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated								
			(11,506)	(11,197)	65,163	32,553	17,085	11,217
Net Income (Loss)								
			909	76,360	(32,610)	(15,468)	(5,868)	2,772
Retained Earnings/Fund Balances - June 30								
			(10,597)	65,163	32,553	17,085	11,217	13,989
60 days of expenses								
(Total Operating Expenses divided by 6)								
			39,295	39,393	48,909	45,927	45,888	46,071

**LFD
ISSUE****Potentially Over Zealous Revenue Projections - Opportunity to Share Resources**

The revenues for the program were developed under the assumption that the state budget concerns would adversely impact training attendance only in fiscal 2003, but would grow above the fiscal 2002 levels in the 2005 biennium. Given the current projected 2005 biennium general fund revenue deficit, it would appear that these assumptions are somewhat optimistic. If training attendance fails to materialize as projected, the revenues the program collects would not likely materialize and the operating losses would further erode the fund balance to the point of insolvency.

The legislature may wish to consider how budget reductions in state agencies would impact training, which is often a non-mandated expenditure. It may also wish to request that the executive show how it anticipates achieving its revenue projections in a time of reduced budgets. If the legislature determines that revenues projections for the program are too high, it may wish to direct the executive to reduce expenses in order to maintain the fund solvency and remove the potential for an infusion of capital from some other source. With personal services comprising more than half of the expenses, one potential approach to restore the balance between revenues and expenses during a time of reduced demand would be to reduce FTE of the PDC.

An adjustment in the Information Technology Services Division (ITSD) provides an opportunity to address the potential fund solvency issue in a more painless way while at the same time addressing another identified budget item. The proprietary rates section for ITSD includes an adjustment for funding to add a new technology training coordinator position. If the technology training coordination function could be done using the existing resources of the PDC, the legislature would not have to reduce FTE in this program or could transfer the FTE for use in ITSD. The legislature may wish to ask the department if training resources of the PDC could be used to support the training concerns in ITSD.

Rate Explanation

Figure 23A shows the historical rates and rates submitted for legislative approval for the PDC.

Figure 23A Professional Development Center Historical and Requested Rates							
		Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Training Service	(per hour)	\$ 50.91	\$ 52.84	\$ 113.00	\$ 113.00	\$ 128.12	\$ 128.59

The rates requested for the 2005 biennium are increases of \$15.12 per hour or 13.4 percent for fiscal 2004 and \$15.59 per hour or 13.8 percent.

**LFD
ISSUE****Growth of Rates Could Adversely Impact Demand for Service**

The services provided by the PDC are provided in a competitive market environment and are readily available from other sources, including provision by agency staff or purchase from the private sector. Training is often a discretionary expenditure for agencies and often among the first expenditures cut. In times of tight budgets, agencies will either seek the lowest cost alternative to acquire training or not provide any but the most critical training. The increases proposed for the PDC could impact the demand for PDC training and its ability to meet revenue projections. If the revenues fail to develop and the PDC continues to experience operating losses, the fund could become insolvent and either not be able to meet its cash obligations or could require a contribution of capital from some other source.

The legislature may wish to request that the executive show how the demand for PDC training would be impacted by the imminent budget reductions and by the rates proposed for the PDC. The legislature may also wish to have the executive provide a comparison between the costs for similar courses offered by the PDC and those offered from alternative sources to determine if other training sources are becoming more competitive with PDC.

The rates for the PDC were developed with the following assumptions:

- 25 percent of total staff time can be billed to specific products or services (based on an earlier analysis)

- 65 percent of total costs are personal services and other fixed costs that must be allocated through staff time and can not be associated with specific products or services
- One half of a 45-day working capital has been added to the fixed costs in order to establish the full working capital requirement by the end of the biennium
- One half of the outstanding liability for compensated absences has been added to the fixed costs in order to build it into the fund balance by the end of the biennium

If the legislature approves the rates for the PDC as requested, it anticipates charging for courses based on the schedule shown on Figure 23B.

Figure 23B Professional Development Center 2005 Biennium Course Rate Schedule		
Type of service	Fiscal 2004	Fiscal 2005
Open enrollment courses		
Two-day course, per participant	\$ 155	\$ 160
One-day course, per participant	97	99
Half-day course, per participant	75	77
Eight-day management series	435	445
Six-day management series	380	385
Four-day administrative assistant series	280	285
Contract courses		
Full day of training, flat fee	760	780
Half day of training, flat fee	500	520
Other services		
Consulting or facilitating, hourly fee	55	55
All other services, hourly fee	50	50

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Professional Development Center that result in reductions of expenses totaling \$72,579 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates of the PDC.

Adjustments included in the rate request are:

- A net increase totaling \$3,373 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- A reduction of \$80,778 for the biennium to eliminate the labor management training initiative that only applied to the 2003 biennium. This initiative coordinated labor relations training and skill development in order to enhance the long-term relationships between the state and participating unions new proposal DP 2302 Elimination of Service
- An increase of \$4,826 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

Employee Benefits Program (Fund 06559)

Program Description

The Employee Benefits Program is charged with providing state employees, retirees and their families with adequate medical, dental, life and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-insured health and dental plan. Life and long-term care insurance are purchased from private sector vendors. The program contracts with private companies to provide claims processing services, health screening, managed care services and an employee assistance program. The plan serves approximately 31,000 people.

Revenues and Expenses

In fiscal 2002, the Employee Benefit Program had revenues of roughly \$65.3 million from premiums paid by state agencies and employee contributions. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (26.5 percent), \$17.3 million
- o State special revenue (22.1 percent), \$14.4 million
- o Federal special revenue (11.1 percent), \$7.2 million
- o Proprietary funds (6.1 percent), \$4.0 million
- o All other funds (34.2 percent), \$22.4

In fiscal 2002, revenues funded personal services for 12.39 FTE and operating costs. Personal services of \$0.5 million were 0.6 percent of expenses, operating costs were \$2.7 million or 3.5 percent of expenses, and benefits payments made up the remaining \$73.8 million or 95.9 percent of program expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name		
06559	Employee Group Benefits	61010	Dept. of Administration	Employee Benefits		
					actual FY00	actual FY01
					actual FY02	budgeted FY03
					budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue					-	-
Investment Earnings					1,151,083	2,509,402
Securities Lending Income					228,542	179,753
Premiums					54,766,288	58,003,135
Other Operating Revenues					2,519,194	239,128
Total Operating Revenues					58,665,107	60,931,418
Intrafund Revenue					-	-
Net Operating Revenues					58,665,107	60,931,418
Operating Expenses:						
Personal Services					378,056	456,576
Other Operating Expenses					62,566,716	65,380,410
Miscellaneous, operating					137,377	152,006
Miscellaneous, other					-	-
Total Operating Expenses					63,082,149	65,988,992
Intrafund Expense					-	-
Net Operating Expenses					63,082,149	65,988,992
Operating Income (Loss)					(4,417,042)	(5,057,574)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets					-	-
Federal Indirect Cost Recoveries					-	-
Other Nonoperating Revenues (Expenses)					-	-
Net Nonoperating Revenues (Expenses)					-	-
Income (Loss) Before Operating Transfers					(4,417,042)	(5,057,574)
Contributed Capital					-	-
Operating Transfers In (Note 13)					-	-
Operating Transfers Out (Note 13)					-	-
Retained Earnings/Fund Balances - July 1 - As Restated					25,174,200	21,913,824
Net Income (Loss)					(4,417,042)	(5,057,574)
Retained Earnings/Fund Balances - June 30					20,757,158	16,856,250
60 days of expenses (Total Operating Expenses divided by 6)					10,513,692	10,998,165

The table for fund 06559 shows the financial data for the fund from fiscal 2000 through fiscal 2005. Operating expenses have consistently been higher than fund revenues from premium payments resulting in ongoing operating losses. This report shows an operating loss of \$10 million in fiscal 2002 and additional losses projected for fiscal 2003 and the 2005 biennium. As a result, the fund balance was roughly equivalent to 32 days of annual expenses.

The primary factor for the fund losses is the growth of medical and prescription drug claims. Medical claim costs are increasing approximately 8 percent annually. Drug claims are increasing 16 percent annually.

The program maintains a substantial reserve to allow it to cover health claims against the self-insured plan. Insurance regulations require a certain reserve to be maintained in order to protect the well being of participants in the plan. In addition, the program maintains a reserve to cover its pending liability for claims that have been incurred but not reported at any point in time. The program monitors reserve levels closely with the assistance of its benefit consultant to ensure that the plan is complying with the insurance industry's standard practices and requirements.

Rate Explanation

Figure 23C shows the historical rates and rates submitted for legislative approval for the state share of employee group benefits. The proposed rates -- the state contribution for employee insurance coverage - would add \$44 on January 1, 2004, and an additional \$50 on January 1, 2005, per month per employee. The rates for the state share of employee group insurance are not approved in HB 2, but in the state pay plan bill (HB 13). As a component of employee compensation, the state contribution is a subject of collective bargaining.

Figure 23C Group Benefit Premium Rates						
Rate Description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
State Share (per employee/month)	\$ 285	\$ 295	\$ 325	\$ 366	\$ 410	\$ 460
Change		10	30	41	44	50

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for the Employee Benefits Program that result in increases of expenses totaling \$115,660 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on rates.

Adjustments included in the rate request are:

- A net increase totaling \$14,912 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- An increase of \$51,422 for the biennium to add funding to add 0.62 FTE payroll benefits officer to address workload increases from increased customer inquiries that are occurring due to the number and complexity of the different health plans available to state employees
- An increase of \$49,326 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

Payroll Processing (Fund 06563)

Program Description

The Payroll/Benefits Operations Bureau operates the statewide payroll, benefits, and human resources (HR) system to process, distribute, report, and account for payroll, benefits, and associated withholding and deductions for more than 13,000 state employees in three branches of Montana state government. The bureau establishes and maintains standards, processes, and procedures to be followed by state agencies in preparing and submitting payroll, benefits, and related HR data into the system. The system operated by the bureau provides information and processing in support of division and statewide functions and programs including employee benefits, classification, pay, labor relations, policy, and training.

Revenues and Expenses

In fiscal 2002, the Payroll/Benefits Operations Bureau had revenues of roughly \$360,550 from payroll processing fees paid by state agencies. These revenues were received from the following funding sources in the percentages and

approximate amounts listed:

- o General fund (40.0 percent), \$144,250
- o State special revenue (35.1 percent), \$126,400
- o Federal special revenue (11.3 percent), \$40,700
- o Proprietary funds (10.8 percent), \$39,100
- o All other funds (2.8 percent), \$10,100

In fiscal 2002, revenues funded personal services for 6.00 FTE and operating costs. Personal services of \$248,106 were 65.9 percent of expenses, with operating costs making up the remaining \$128,592 or 34.1 percent of bureau expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name		
06563	Payroll Processing	61010	Dept. of Administration	Payroll/Benefit Operations		
					actual FY00	actual FY01
					actual FY02	budgeted FY03
					budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
	Payroll Processing Fees				308,746	308,745
	Miscellaneous Payroll Services				-	300
	Net Fee Revenue				308,746	309,045
Investment Earnings						
	Securities Lending Income				-	-
	Premiums				-	-
	Other Operating Revenues				338	1,983
	Total Operating Revenues				309,084	311,028
Intrafund Revenue						
	Net Operating Revenues				309,084	311,028
Operating Expenses:						
	Personal Services				219,231	234,132
	Other Operating Expenses				126,807	110,498
	Miscellaneous, operating				10,679	10,775
	Miscellaneous, other				-	-
	Total Operating Expenses				356,717	355,405
Intrafund Expense						
	Net Operating Expenses				356,717	355,405
Operating Income (Loss)						
					(47,633)	(44,377)
Nonoperating Revenues (Expenses):						
	Gain (Loss) Sale of Fixed Assets				-	-
	Federal Indirect Cost Recoveries				-	-
	Other Nonoperating Revenues (Expenses)				-	-
	Net Nonoperating Revenues (Expenses)				-	-
Income (Loss) Before Operating Transfers						
					(47,633)	(44,377)
Contributed Capital						
					103,315	103,315
Operating Transfers In (Note 13)						
					-	-
Operating Transfers Out (Note 13)						
					-	-
Retained Earnings/Fund Balances - July 1 - As Restated						
					6,712	(40,921)
Net Income (Loss)						
					55,682	58,938
Retained Earnings/Fund Balances - June 30						
					62,394	18,017
60 days of expenses						
	(Total Operating Expenses divided by 6)				59,453	59,234

The table for fund 06563 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows that operating losses in fiscal years 2000 through 2002 have reduced the fund balance to nearly 2 days of annual expenses at the end of fiscal 2002. A projected operating loss for fiscal 2003 would further erode the fund balance. The program has developed rates for the 2005 biennium to build the fund balance to 45 days of working capital.

Rate Explanation

Figure 23D shows the historical rates and rates submitted for legislative approval for the Payroll and Benefits Operations Bureau.

Figure 23D Payroll Processing Historical and Requested Rates						
Rate description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Payroll Service Fees (per employee processed per pay period)	\$ 0.99	\$ 0.81	\$ 1.03	\$ 1.05	\$ 1.25	\$ 1.32
Change		(0.18)	0.22	0.02	0.20	0.07
Change from fiscal 2002					0.22	0.29
Percent change from fiscal 2002					21.4%	28.2%

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Payroll and Benefits Operations Bureau expenditures for an increase totaling \$4,064 for the 2005 biennium. No information was provided to determine the impacts these adjustments would have on the payroll service fee rate. However, a portion of the rate increase is attributed to accumulating working capital to 45 days.

Adjustments included in the rate request are:

- A net increase totaling \$5,285 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- A reduction of \$1,221 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

Flexible Spending Accounts Program (Fund 06027)

Program Description

The state offers its employees the opportunity to participate in a medical care and a dependent care flexible spending account, which allows them to pay for qualified expenses with pre-tax dollars. The Employee Benefits Bureau contracts with an account administrator whose fees are based on the number of employees participating in the plan. Employees designate a portion of their paycheck to be directed to the flexible spending accounts and are charged a monthly service fee, which is also collected through the payroll process. As participants in the plan incur medical or dependent care costs that are not reimbursed to them through other sources, they file a claim with the administrator who in turn reimburses the participant with funds from the flexible spending accounts maintained by the state, up to the employee's annual election amount. Annual elections that are not claimed are forfeited by the employee, and are retained by the fund to help cover operating costs. The Flexible Spending Account program is accounted for as an enterprise fund.

Revenues and Expenses

In fiscal 2002, the flexible spending account had revenues of roughly \$4.0 million from administrative fees and premiums paid by state employees participating in the plan. Of these revenues, \$101,655 was spent on claim administrator and bank charges, and \$3,636,358 was paid to plan participants in claim reimbursements. The fund had an operating gain of \$223,341 to increase the fund balance in fiscal 2002. The table for fund 06027 shows the financial data for the fund from fiscal 2000 through fiscal 2005.

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Fund	Fund Name	Agency #	Agency Name	Program Name
06027	Flexible Spending Accounts	61010	Dept. of Administration	Personnel

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Administrative Fee Revenue	86,044	89,446	87,980	87,600	111,461	125,883
Net Fee Revenue	86,044	89,446	87,980	87,600	111,461	125,883
Investment Earnings	3,816	5,302	2,643	3,150	3,600	3,600
Securities Lending Income	182	38	48	-	-	-
Premiums	3,244,249	3,612,786	3,870,683	4,266,929	4,532,461	5,072,946
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenues	3,334,291	3,707,572	3,961,354	4,357,679	4,647,522	5,202,429
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	3,334,291	3,707,572	3,961,354	4,357,679	4,647,522	5,202,429
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses clms, drs in 531000	3,160,174	3,640,595	3,636,358	4,181,812	4,539,865	5,072,937
Miscellaneous, operating all 62800 o/e	86,105	91,527	101,655	87,600	110,611	126,174
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	3,246,279	3,732,122	3,738,013	4,269,412	4,650,476	5,199,111
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	3,246,279	3,732,122	3,738,013	4,269,412	4,650,476	5,199,111
Operating Income (Loss)	88,013	(24,550)	223,341	88,267	(2,954)	3,318
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	88,013	(24,550)	223,341	88,267	(2,954)	3,318
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Retained Earnings/Fund Balances - July 1 - As Restated	28,013	115,631	91,081	314,421	402,688	399,734
Net Income (Loss)	88,013	(24,550)	223,341	88,267	(2,954)	3,318
Retained Earnings/Fund Balances - June 30	116,025	91,081	314,421	402,688	399,734	403,052
60 days of expenses (Total Operating Expenses divided by 6)	541,046	622,020	623,002	711,569	775,079	866,519

Rate Explanation

The rate charged to participants in the flexible spending account plans is established through the competitive bid procurement process and contract negotiations with the successful bidder for the claims administration contract. The participant pays these plan administration fees. Figure 23E shows the historical and negotiated fees for fiscal years 2003 through 2004. The fee for fiscal 2005 has not been negotiated.

Figure 23E Flexible Spending Account Historical and Planned Rates (for information)						
Rate description	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Administration fee (per participant/month)	\$ 2.30	\$ 2.30	\$ 2.16	\$ 2.16	\$ 2.16	Not determined

Significant Adjustments for the 2005 Biennium

The executive includes a present law adjustment for flexible spending account expenses of just over \$2.3 million for the 2005 biennium for anticipated claim growth.

State Recruitment Advertising (Fund 06590)

Program Description

The executive recommends adding a new program to consolidate state position vacancy advertisements. The executive recommends funding the costs of advertising via an internal service fund with fees paid by agencies on an allocation based on FTE.

Revenues and Expenses

As this is a new program, there are no historical revenues or expenses to report. The executive anticipates spending a total of \$135,000 each year on newspaper advertisements in Montana's five major newspapers centered on the markets in Missoula, Butte, Great Falls, Helena, and Billings. The advertisements would be published each Sunday and would refer people to the state's Internet web site for detailed information related to each advertised position. The executive anticipates using existing resources to establish contracts with the newspapers and to assemble and transmit the ads to the newspapers. The executive estimates it would take roughly one hour per week to assemble and transmit the ads to the newspapers. These costs would be funded with the general fund portion of the division budget.

Rate Explanation

As stated, the executive recommends allocating the costs of this program on the basis of FTE in each agency, and requests legislative approval of \$12 per FTE per year as the rate for fiscal years 2004 and 2005.

LFD COMMENT

Saving is Undeterminable

The cost savings from this request is undeterminable because a separate accounting code does not exist on the state accounting system to record expenditures only for newspaper advertisements for staff recruitment. Savings would result in all agencies by having one advertisement in the Sunday editions of the stated newspapers instead of separate advertisements that repeat much of the same copy text. Savings would also result from only listing the advertised positions instead of descriptions of the positions and their duties.

Program Description

The Risk Management and Tort Defense Division insures state agencies against risk of loss for property, vehicles, boilers, airports, aircraft, fidelity bonds, and fine arts. The state self-insures against property losses under \$150,000 (\$250,000 for the prison), and claims for general liability, errors and omissions, inland marine, auto liability, and foster care liability. The state also carries full coverage auto insurance on certain state-owned vehicles and on various leased or loaned vehicles. The division also provides risk management and safety training, consultation services, claims administration, and legal defense to prevent or minimize the adverse effects of physical or financial loss.

Program Narrative

Department of Administration Risk Management & Tort Defense Major Budget Highlights
Premiums charged for insurance increase by \$6.7 million or 84.1 percent in fiscal 2004 and \$7.4 million or 92.6 percent in fiscal 2005 from the fiscal 2002 level
Major LFD Issues
Significant insurance rate increase

Funding

The Risk Management and Tort Defense Division is funded entirely with proprietary funds financed with revenues from premium payments from state agencies.

Proprietary Rates

Program Description

The Risk Management and Tort Defense Division (RMTD) purchases catastrophic commercial property and casualty insurance to cover aviation and property losses that are above self-funded deductibles for state agencies, boards, councils, commissions, and the university system. Through in-house staff and contracted services, the division self-insures general liability, vehicle liability, professional liability, errors and omissions, inland marine, leased/loaned vehicles, and foster care exposures. The Department of Administration accumulates a self-insurance fund to pay for losses, purchase insurance, and fund operations.

The division provides risk management/safety training and consultative services to state agencies to prevent and/or minimize the adverse effects of physical or financial loss. The division also investigates, evaluates, and defends agencies, officers, and employees of the state in tort liability claims and coordinates the adjudication and settlement of claims involving damage to state property.

Revenues and Expenses

In fiscal 2002, the Risk Management and Tort Defense Division had revenues of roughly \$8.0 million from premiums paid by state agencies. These revenues were received from the following funding sources in the percentages and approximate amounts listed:

- o General fund (17.6 percent), \$1.4 million
- o State special revenue (18.8 percent), \$1.5 million
- o Federal special revenue (4.3 percent), \$0.3 million
- o Proprietary funds (13.8 percent), \$1.1 million
- o All other funds (45.5 percent), \$3.7 million

In fiscal 2002, revenues funded personal services for 16.00 FTE, operating costs, and insurance claims. Personal services of \$659,000 were 3.7 percent of expenses, operating costs of \$3,985,000 were 22.7 percent of expenses, and insurance claims of \$12,934,000 made up the remaining 73.6 percent of division expenses.

Report on Internal Service and Enterprise Funds, 2005 Biennium

Fund	Fund Name	Agency #	Agency Name	Program Name
06532	Admin Insurance	61010	Dept. of Administration	Risk Management and Tort Defense

	actual FY00	actual FY01	actual FY02	budgeted FY03	budgeted FY04	budgeted FY05
Operating Revenues:						
Fee revenue						
Net Fee Revenue	-	-	-	-	-	-
Investment Earnings	260,014	217,271	55,779	50,000	219,346	-
Securities Lending Income	72,608	13,214	1,005	-	-	-
Premiums	6,533,045	6,519,384	8,022,219	8,657,660	14,682,642	15,411,329
Other Operating Revenues	13,765	45,027	47,616	136,629	-	-
Total Operating Revenues	6,879,432	6,794,896	8,126,619	8,844,289	14,901,988	15,411,329
Intrafund Revenue	-	-	-	-	-	-
Net Operating Revenues	6,879,432	6,794,896	8,126,619	8,844,289	14,901,988	15,411,329
Operating Expenses:						
Personal Services	549,095	599,506	658,734	721,240	737,721	738,402
Other Operating Expenses	19,192,679	6,634,228	16,888,890	11,611,259	13,884,504	13,870,774
Miscellaneous, operating	23,047	31,127	27,245	25,783	-	-
Miscellaneous, other	-	-	-	-	-	-
Total Operating Expenses	19,764,821	7,264,861	17,574,869	12,358,282	14,622,225	14,609,176
Intrafund Expense	-	-	-	-	-	-
Net Operating Expenses	19,764,821	7,264,861	17,574,869	12,358,282	14,622,225	14,609,176
Operating Income (Loss)	(12,885,389)	(469,965)	(9,448,250)	(3,513,993)	279,763	802,153
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	(1,405)	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	(1,405)	-	-	-
Income (Loss) Before Operating Transfers	(12,885,389)	(469,965)	(9,449,655)	(3,513,993)	279,763	802,153
Contributed Capital	2,306	2,306	-	-	-	-
Operating Transfers In (Note 13)	11,759	19,543	1,150,353	383,885	383,885	383,885
Operating Transfers Out (Note 13)	(316,299)	(331,698)	(436,040)	(361,346)	(361,346)	(361,346)
Retained Earnings/Fund Balances - July 1 - As Restated	(10,579,153)	(23,769,082)	(24,548,896)	(33,284,238)	(36,775,692)	(36,473,390)
Net Income (Loss)	(13,187,623)	(779,814)	(8,735,342)	(3,491,454)	302,302	824,692
Retained Earnings/Fund Balances - June 30	(23,766,776)	(24,548,896)	(33,284,238)	(36,775,692)	(36,473,390)	(35,648,698)
60 days of expenses (Total Operating Expenses divided by 6)	3,294,137	1,210,810	2,929,145	2,059,714	2,437,038	2,434,863

Requested Rates for Internal Service Funds Fee/Rate Information for Legislative Action

	FYE 00	FYE 01	FYE 02	Budgeted FY 03	-----Requested----- FY 04	FY 05	AUTHORITY
Premiums							
General Liability	3,834,842	3,834,842	5,362,500	5,775,000	10,566,132	11,205,485	MCA 2-9-202
Auto Liability/Comp/Collision	1,284,099	1,272,584	1,208,109	1,276,640	1,072,901	1,084,370	MCA 2-9-202
Aviation	122,108	119,962	116,567	154,747	165,728	165,822	MCA 2-9-202
Property/Miscellaneous	1,291,996	1,291,996	1,335,043	1,404,080	2,965,254	2,997,090	MCA 2-9-202
Total Premiums Charged	6,533,045	6,519,384	8,022,219	8,610,467	14,770,015	15,452,767	

The rate objective is to maintain insurance rates sufficient to sustain losses in each year of the biennium equal to the average losses sustained in the last three years.

The table for fund 06532 shows the financial data for the fund from fiscal 2000 through fiscal 2005. This report shows

operating losses in all years except for the 2005 biennium. The improvement in the fund is primarily due to a large projected increase in premiums paid by state agencies, with no increase in total expenses. The fund balance was in a deficit position of \$33.3 million at the end of fiscal 2002 due to two factors: 1) estimated claims liabilities of nearly \$30 million; and 2) a general fund loan of \$4.7 million to provide cash flow..

Each fiscal year the division contracts with an actuarial consulting firm to project the state's estimated unpaid loss and loss adjustment expenses. The actuarial evaluation provides an estimate of the funding that would be necessary if all of the state's claims and lawsuits for prior fiscal years came due at the same time. Actuarial projections of unpaid losses as of June 30, 2002, are \$29.9 million. Actuarial projected future loss costs for fiscal years 2004 and 2005 determined the ultimate projected loss for those fiscal years to be \$10.1 million and \$10.8 million respectively. Since claims and lawsuits are filed at different times and are typically paid out over as many as 10 years, it is not probable that all claims would come due at once. However, recent projections indicate that the state's unfunded insurance liability is increasing.

Rate Explanation

Figure 24A shows the historical rates and rates submitted for legislative approval for the Risk Management and Tort Defense Division.

Figure 24A Risk Management and Tort Defense Division Historical and Requested Premiums						
	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
General liability	\$ 3,834,842	\$ 3,834,842	\$ 5,362,500	\$ 5,775,000	\$ 10,566,132	\$ 11,205,485
Auto liability, comprehensive, and collision	1,284,099	1,272,584	1,208,109	1,276,640	1,072,901	1,084,370
Aviation	122,108	119,962	116,567	154,747	165,728	165,822
Property/Miscellaneous	1,291,996	1,291,996	1,335,043	1,404,080	2,965,254	2,997,090
Total Premiums Charged	\$ 6,533,045	\$ 6,519,384	\$ 8,022,219	\$ 8,610,467	\$ 14,770,015	\$ 15,452,767
2003 biennium change from fiscal 2000			22.8%	31.8%		
2005 biennium change from fiscal 2002					84.1%	92.6%

Figure 24A shows that the rates requested for the 2005 biennium are increases of more than 80 percent from the fiscal 2002 rates, which increased by more than 20 percent over the fiscal 2000 rates. The major factors for the rate changes are:

- o Repayment of general fund loan
- o Increased number of exposure units
- o Increased value of assets
- o Unfavorable insurance market conditions due to the downturn in the equity market and the insurance payouts associated with the events of September 11, 2001
- o Inflation in medical costs, attorneys' fees, and court awards

As stated, the division acquired a general fund loan to provide cash flow during fiscal 2002. Revenues are not sufficient to repay this loan and the division anticipates requesting an extension and additional loan proceeds to provide cash flow in fiscal 2003. A portion of the increase is to repay the existing and anticipated new loans.

State agencies own or lease an estimated 9,300 vehicles per year. These vehicles are used for diverse functions including highway maintenance, law enforcement, construction, regulatory activities, and off-road travel. These vehicles are driven several million miles each year in the provision of state services. Additionally, state agencies own and operate 15 airports and 22 aircraft that are used for diverse functions such as law enforcement, game management, transporting state employees, firefighting, and aerial topography. Because of the type of work performed using the vehicles and the distances traveled, the vehicle operations are classified as high insurance risk.

The division currently purchases liability insurance on an excess basis with limits of \$5 million per occurrence and a

deductible of \$1.5 million per occurrence. Terrorist attacks of September 11, 2001, resulted in the losses of hundreds of lives and billions of dollars in aircraft damages. Aviation insurance carriers that have suffered declining investment income in stock markets, no longer had the capacity and surplus to absorb these losses. As a result, the state's aviation insurance premiums are set to increase significantly in the 2005 biennium.

Montana state government operates prisons, hospitals, and institutions; designs and maintains highways; provides law enforcement; supervises parolees; manages natural and wildlife resources; places and supervises foster children; educates students; and provides many other public services that create liability exposure. An increase in the frequency and the severity of general liability claims is attributed, in part, to increased exposure from providing more of these services. This increased exposure is evident by the fact that the division has experienced two of its worst years of loss experience since fiscal 1998.

LFD ISSUE

Significant Rate Increases

Figure 24A shows that the growth of insurance rates over the last two biennia would result in the requests for the 2005 biennium being more than 2.2 times the rates charged in fiscal 2000. Several factors outside Montana's control contribute to this growth. Other factors within the legislature's control could impact the rate of growth for these insurance rates. The 2001 legislature attempted to influence the insurance costs by limiting the rates the division could charge to levels less than requested by the executive. The intent was to encourage the division to work more toward prevention and defending the state during litigation. It's not apparent from the information provided that this encouragement was successful in reducing Montana's insurance liability.

The legislature may wish to request the Risk Management and Tort Division identify:

- o The steps taken to reduce state insurance liabilities
- o The measures used to monitor the division's efforts and the results achieved from the efforts to reduce insurance liabilities
- o The data the division monitors to identify areas of high or increasing risk
- o Trends and issues that result in high settlements levels or high volumes of claims payments

The legislature may also wish to consider options besides insurance rates for impacting insurance costs:

- o Attempt to reduce liability through tort reform
- o Revise personal liability exemptions for state employees to encourage more active prevention efforts
- o Other insurance reforms that may limit settlement amounts and nuisance claims against the state

The above options can't be achieved directly through the appropriations process and would require changes to substantive laws. Furthermore, the factors that would influence such change are complex and are not recommended to be done without a great deal of study and public participation. With this the legislature may wish to commission a study of insurance costs and factors that affect or could be controlled to effect changes to the state's liability exposure.

Significant Adjustments for the 2005 Biennium

The executive included present law adjustments and new proposals for Risk Management and Tort Defense Division expenses totaling \$3.3 million for the 2005 biennium.

Adjustments included in the rate request are:

- o A net increase totaling \$68,943 for the biennium associated with fixed cost changes and establishing an indirect cost pool with centralized functions of the department
- o An increase of \$3,196,134 for the biennium for increased insurance and surety bond payments to commercial insurance carriers for excess coverage
- o An increase of \$48,322 for the biennium for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency

LFD COMMENT

Not Proceeding with Purchase of Excess Liability

After the Executive budget was submitted, the executive stated they would not proceed with purchasing an excess liability insurance policy. This decision would reduce the amount of the above stated adjustments to \$2.5 million or 0.8 million less than stated above. This decision is reflected in the rates being requested.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	7.00	0.00	0.00	7.00	0.00	0.00	7.00	7.00
Personal Services	185,586	77,878	0	263,464	79,318	0	264,904	528,368
Operating Expenses	62,397	(3,869)	4,129	62,657	(2,828)	4,133	63,702	126,359
Local Assistance	1,180	0	0	1,180	0	0	1,180	2,360
Total Costs	\$249,163	\$74,009	\$4,129	\$327,301	\$76,490	\$4,133	\$329,786	\$657,087
General Fund	249,163	74,009	4,129	327,301	76,490	4,133	329,786	657,087
Total Funds	\$249,163	\$74,009	\$4,129	\$327,301	\$76,490	\$4,133	\$329,786	\$657,087

Program Description

The State Tax Appeal Board provides a tax appeal system for all actions of the Department of Revenue. It hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, motor fuels taxes, vehicle taxes, and cabin site leases. The board travels throughout the state to hear appeals from decisions of the county tax appeal boards and to conduct informational meetings for the various county tax appeal boards. The State Tax Appeal Board directs the county tax appeal board secretaries, who are state employees, and pays their salaries and employee benefits from its personal services appropriation. The board also reviews and pays the expenses, including employee benefits, of those county tax appeal board secretaries who are county employees. In addition, the board pays the clerical-related expenses for all 56 county tax appeal boards, including supplies, postage and copies, but excluding office equipment.

Program Narrative

Department of Administration State Tax Appeal Board Major Budget Highlights	
o	General fund budget increases by \$124,161 or 23.3 percent over the 2003 biennium

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table State Tax Appeal Board						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 249,163	100.0%	\$ 327,301	100.0%	\$ 329,786	100.0%
Grand Total	\$ 249,163	100.0%	\$ 327,301	100.0%	\$ 329,786	100.0%

The board is funded entirely by the general fund. General fund increases by more than 31 percent each year over the base. The main factor for this increase is a 43 percent vacancy rate in fiscal 2002 and the corresponding increases resulting from fully funding all FTE, except for the vacancy savings imposed by the executive. As stated, the county tax appeal board secretaries are state employees. These secretaries work only when needed, and need is based on the

workload resulting for tax appeals. The executive has stated that tax appeals are expected to increase significantly during the 2005 biennium because of the recently completed property tax reappraisal of classes three, four, and ten properties.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					86,674					88,173
Vacancy Savings					(10,891)					(10,950)
Inflation/Deflation					554					565
Fixed Costs					(2,302)					(1,267)
Total Statewide Present Law Adjustments					\$74,035					\$76,521
DP 3701 - Per diem and indirect costs	0.00	(26)	0	0	(26)	0.00	(31)	0	0	(31)
Total Other Present Law Adjustments	0.00	(\$26)	\$0	\$0	(\$26)	0.00	(\$31)	\$0	\$0	(\$31)
Grand Total All Present Law Adjustments					\$74,009					\$76,490

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3701 - Per diem and indirect costs - A net reduction of \$57 general fund for the biennium is recommended to provide per diem of \$2,095 per year for board members and to reduce for indirect and administrative costs paid for services received from other proprietary funded centralized service functions of the agency by \$4,247 for the biennium.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Allocation-HB2										
37	0.00	4,129	0	0	4,129	0.00	4,133	0	0	4,133
Total	0.00	\$4,129	\$0	\$0	\$4,129 *	0.00	\$4,133	\$0	\$0	\$4,133 *

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Allocation-HB2 - An increase of \$8,262 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the Director's Office and the Management Support Bureau that provide centralized service functions for divisions of the department. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying in those divisions without dedicated accounting staff.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	3.00	0.00	0.00	3.00	0.00	0.00	3.00	3.00
Personal Services	133,911	13,653	0	147,564	13,879	0	147,790	295,354
Operating Expenses	44,999	(6,753)	2,659	40,905	(6,428)	2,662	41,233	82,138
Total Costs	\$178,910	\$6,900	\$2,659	\$188,469	\$7,451	\$2,662	\$189,023	\$377,492
General Fund	0	185,810	2,659	188,469	186,361	2,662	189,023	377,492
State/Other Special	178,910	(178,910)	0	0	(178,910)	0	0	0
Total Funds	\$178,910	\$6,900	\$2,659	\$188,469	\$7,451	\$2,662	\$189,023	\$377,492

Agency Description

The Office of the Appellate Defender is an agency administratively attached to the Department of Administration. The appellate defender is hired by, and serves at the pleasure of, the Appellate Defender Commission. The appellate defender provides legal counsel for indigent persons who have been convicted and who then appeal district court convictions, or who petition for post-conviction relief from district court proceedings. The appellate defender also aids the commission by compiling and maintaining a current roster of Montana attorneys who are eligible to serve as trial and appellate defense counsel for the indigent, if appointed by an appropriate court.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	3.00	0.00	3.00	3.00	0.00	3.00	3.00	3.00
Personal Services	147,564	0	147,564	147,790	0	147,790	272,638	295,354
Operating Expenses	38,246	2,659	40,905	38,571	2,662	41,233	90,032	82,138
Total Costs	\$185,810	\$2,659	\$188,469	\$186,361	\$2,662	\$189,023	\$362,670	\$377,492
General Fund	185,810	2,659	188,469	186,361	2,662	189,023	183,760	377,492
State/Other Special	0	0	0	0	0	0	178,910	0
Total Funds	\$185,810	\$2,659	\$188,469	\$186,361	\$2,662	\$189,023	\$362,670	\$377,492

Agency Discussion

Appellate Defender Major Budget Highlights	
o	Total funding for the 2005 biennium increases 4.1 percent over the 2003 biennium
o	Unspecified reductions that carry forward Governor and August 2002 Special Session reductions total \$21,396 or 5.7 percent of biennium funding
o	Performance based pay increases add \$12,600 over the biennium

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Appellate Defender						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ -	-	\$ 188,469	100.0%	\$ 189,023	100.0%
02141 District Court Crim. Reimb.	178,910	100.0%	-	-	-	-
Grand Total	\$ 178,910	100.0%	\$ 188,469	100.0%	\$ 189,023	100.0%

The office is funded entirely from general fund. This funding is a change from the 2003 biennium when the base was funded with state special revenue from district court criminal reimbursement state special revenue account, which was derived from taxes and fees collected on light vehicles. When HB 124 of the 2001 legislature revised law governing local government and state revenue collection and allocation, the state special revenue funding was switched to general fund. General fund began supporting the operations of the office in fiscal 2003.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					10,938					11,164
Vacancy Savings					0					0
Inflation/Deflation					(294)					(207)
Fixed Costs					340					251
Total Statewide Present Law Adjustments					\$10,984	\$11,208				
DP 1 - Fixed Cost Adjustments & On-going Reductions										
	0.00	(4,084)	0	0	(4,084)	0.00	(3,757)	0	0	(3,757)
Total Other Present Law Adjustments										
	0.00	(\$4,084)	\$0	\$0	(\$4,084)	0.00	(\$3,757)	\$0	\$0	(\$3,757)
Grand Total All Present Law Adjustments					\$6,900	\$7,451				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 1 - Fixed Cost Adjustments & On-going Reductions - A net reduction of \$7,841 general fund for the biennium is recommended through offsetting adjustments that: 1) provide unspecified reductions totaling \$21,396 to carry forward the Governor's 17-7-140, MCA, reductions and reductions imposed in the August 2002 Special Session; 2) fund increases of \$12,600 for performance based pay raises in a future movement to the broadband plan of the alternative classification and compensation system; and 3) fund increases totaling \$955 for office space rent and fixed costs.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 317 - Indirect Cost Recovery										
01	0.00	2,659	0	0	2,659	0.00	2,662	0	0	2,662
Total	0.00	\$2,659	\$0	\$0	\$2,659	0.00	\$2,662	\$0	\$0	\$2,662

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 317 - Indirect Cost Recovery - An increase of \$5,321 general fund for the biennium is requested to provide indirect cost payments for a new indirect cost pool formed from portions of the director's office and the Management Support Bureau of the Department of Administration that provide centralized service functions for the office. This indirect cost pool would fund the department director, deputy director, dedicated administrative support staff of the director, two accountants, and an accounting/fiscal manager. The indirect cost pool would pay for budget work, fiscal note coordination, and bill paying for the office.

HEALTH AND HUMAN SERVICES

Section B

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Public Health & Human Services

-----Committee Members-----

House

Representative Edith Clark (Chair)
Representative Joey Jayne
Representative Dick Haines

Senate

Senator John Cobb (Vice-Chair)
Senator Bob Keenan
Senator Emily Stonington

-----Fiscal Division Staff-----

Lois Steinbeck
Pat Gervais



Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	2,788.09	8.01	22.23	2,818.33	10.51	22.23	2,820.83	2,820.83
Personal Services	103,056,530	14,005,953	1,007,022	118,069,505	14,378,574	1,006,237	118,441,341	236,510,846
Operating Expenses	74,254,507	9,476,324	4,388,176	88,119,007	9,700,705	3,653,570	87,608,782	175,727,789
Equipment	369,407	1,019,810	3,000	1,392,217	1,454,448	0	1,823,855	3,216,072
Capital Outlay	28,398	0	0	28,398	0	0	28,398	56,796
Local Assistance	0	0	0	0	0	0	0	0
Grants	38,063,456	9,513,876	186,533	47,763,865	9,513,049	(613,217)	46,963,288	94,727,153
Benefits & Claims	711,437,161	109,082,144	4,573,202	825,092,507	140,941,555	6,809,933	859,188,649	1,684,281,156
Transfers	0	0	0	0	0	0	0	0
Debt Service	467,562	36,837	52,738	557,137	36,837	750	505,149	1,062,286
Total Costs	\$927,677,021	\$143,134,944	\$10,210,671	\$1,081,022,636	\$176,025,168	\$10,857,273	\$1,114,559,462	\$2,195,582,098
General Fund	260,341,982	16,202,524	(14,242,997)	262,301,509	23,734,374	(15,173,958)	268,902,398	531,203,907
State/Other Special	23,836,105	7,037,689	7,864,401	38,738,195	7,463,268	9,035,210	40,334,583	79,072,778
Federal Special	643,498,934	119,894,731	16,589,267	779,982,932	144,827,526	16,996,021	805,322,481	1,585,305,413
Total Funds	\$927,677,021	\$143,134,944	\$10,210,671	\$1,081,022,636	\$176,025,168	\$10,857,273	\$1,114,559,462	\$2,195,582,098

Agency Description

The Department of Public Health and Human Services (DPHHS) administers a wide spectrum of programs and projects, including: welfare reform - Families Achieving Independence in Montana (FAIM), Medicaid, foster care and adoption, nursing home licensing, long-term care, aging services, alcohol and drug abuse programs, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health functions (such as communicable disease control and preservation of public health through chronic disease prevention).

The department is also responsible for all state institutions except prisons. DPHHS facilities include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastmont Human Services Center, Glendive; Eastern Montana Veterans' Home, Glendive; Montana Veterans' Home, Columbia Falls; and Montana Developmental Center, Boulder.

Supplemental Appropriation Description

DPHHS has not published a budget status report since June 2002, when it estimated that a supplemental appropriation of \$3.9 million general fund would be requested from the 2003 legislature due to cost overruns and funding shortfalls in Medicaid mental health and primary care services and Child Support Enforcement Division. However, information presented to the Legislative Finance Committee in November 2002 indicated that the department would seek a supplemental appropriation for about \$1 million general fund for the Montana Developmental Center.

LFD staff requested an updated budget status in order to determine why the supplemental request changed, but has been unable to obtain data from DPHHS. The department has not provided either a current budget status report as of December 15 or information that describes why the \$3.9 million supplemental anticipated in June changed.

In early December 2002, DPHHS announced further reductions in mental health services effective January 1, 2003, due to a projected shortfall. Also, DPHHS staff indicate that primary care Medicaid services will be short an additional \$3.8 million general fund in fiscal 2003. DPHHS staff estimates of the child support state special revenue fund activity indicate that this fund may need as much as \$3.4 million to return to a positive balance. Child and Family Services Division may be short about \$1 million as well.

Figure 1 shows projected shortfalls for each division and function and whether service reductions are implemented or considered.

Based on DPHHS staff comments, it appears that projected expenditures could be at least \$10.1 million general fund over DPHHS fiscal 2003 appropriations. The net potential supplemental appropriation could be as high as \$7.8 million if other general fund is not available to offset general fund cost overruns or cost saving measures implemented. While OBPP has preliminarily determined it will request a \$1 million supplemental appropriation and that mental health services will be reduced, it is unclear what other actions DPHHS may take to reduce expenditures or whether OBPP will increase the supplemental request.

Preliminary information available to LFD staff indicate that DPHHS will consult with OBPP about the following actions for Medicaid primary care (hospital, physician, and drug services) cost overruns:

- Offset \$0.5 million with transfer from Senior and Long Term Care Division savings
- Early implementation of proposed reductions in the Executive Budget including eligibility changes and limitation of annual physician visits to 10 per year
- Limit adult dental benefits to emergencies only
- Discontinue coverage of stomach stapling and circumcisions
- Provider rate reductions, with some services subject to higher reductions than others

DPHHS is considering two options to cover the shortfall in Child Support Enforcement Division: 1) the transfer of general fund from other divisions; and 2) approval of a supplemental appropriation request by OBPP.

Figure 1
Fiscal 2003 Shortfall/Surplus Projected by DPHHS
as of December 17, 2002

Shortfall/Surplus Division/Function	Amount in Millions	Percent of Total	Service Reductions
<u>Shortfall</u>			
Health Policy and Services	\$ 3.8	38%	Maybe
Primary Care Medicaid			
Child Support Enforcement Div.	3.5	35%	No
Addictive and Mental Disorders	1.8	18%	Yes on
Mental Health			Jan. 1, 2003
Child and Family Services	1.0	10%	Unknown
Foster Care			
Total in Millions	\$ 10.1	100%	
<u>Surplus</u>			
Senior and Long-Term Care			
Nursing Homes	\$ 0.5		
Potential Supplemental	\$ 7.8		

LFD ISSUE

Savings due to Refinancing Could be Used to Offset Supplemental Request

General fund savings created through refinancing efforts in the Developmental Disabilities Program (DDP) could be used to decrease the supplemental request. DDP has or will implement several refinancing efforts in the 2003 biennium including:

- Implementation of Medicaid reimbursement for work/day transportation services
- Implementation of Medicaid billing and reimbursement for all Medicaid eligible residents in congregate living settings
- Closure of one unit at the Montana Developmental Center (MDC)

General fund savings generated through refinancing will be used to expand services, and fund the movement of 5 non-seriously developmentally disabled individuals (completed in fiscal 2002) and 18 other individuals (fiscal 2003 closure of one unit at MDC) from institutional settings to three new group homes. While these uses are consistent with the guidance provided by the 2001 legislature in HB 2, a general fund deficit was not anticipated by the legislature at the time that guidance was provided. Currently, it appears that the department has no plans to utilize any of the general fund savings created by refinancing to offset supplemental appropriation needs within the Disability Services Division or any other program within the agency.

Agency Discussion

Department of Public Health and Human Services Major Budget Highlights	
○ General fund budget request increases 1 percent and total funds increase 11 percent from the 2003 biennium level ○ Executive budget recommends service reductions and elimination of \$35.8 million general fund and \$83.4 million total funds ○ Magnitude of supplemental appropriation need is unclear ○ Significant policy issues included in appropriation decisions • Cap state hospital population • Significant reduction in funding for community mental health services ○ Program eliminations including: • MIAMI (prenatal care to prevent low birth weight and infant mortality) • Medicaid Hospice Services • End Stage Renal Program • Poison Control	
Major LFD Issues	
○ Refinancing can offset general fund or be used to restore service reductions ○ Use of Employment Security Account (ESA) ○ Consistency among divisions ○ Impact of excess federal funds on appropriation laws ○ Excess federal CHIP grant funds • Estimated \$28 million federal funds • Would require \$5 million match • Could use CHIP funds to refinance or expand services ○ I-146 that allocates tobacco settlement funds • Executive budget does not request appropriation for tobacco control program • Funds allocated to CHIP are used to match Medicaid services, which does not appear to meet statutory criteria • At least \$1.5 million more available to match federal CHIP funds	

DPHHS is funded by general fund, state special revenue, and federal funds. General fund declines from 28 percent of the fiscal 2002 base budget funding to 24 percent of the 2005 biennium budget. State special revenue rises from 3 to 4 percent over the same time period and federal funds increase from 69 to 72 percent.

The 2005 biennium budget request is \$222 million total funds more than the 2003 biennium. However, the general fund increase is only \$6 million, which is extremely low compared to recent biennia. For instance, the general fund change in the Executive Budget request between the 2001 biennium and 2003 biennium request was \$52 million general fund and \$387 million total funds.

The lion's share (77 percent) of the biennial change is in benefits. Personal services is 11 percent of the change, partially due to funding for a net increase of 10.25 FTE. Operating expenses are 5 percent.

Figure 2
2003 Biennium Compared to 2005 Biennium
Department of Public Health and Human Services

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total Incr.
FTE	2810.58	2820.83	10.25	
Personal Services	\$ 212,996,772	\$ 236,510,846	\$ 23,514,074	10.6%
Operating	165,233,388	175,727,789	10,494,401	4.7%
Equipment	1,297,789	3,216,072	1,918,283	0.9%
Capital Outlay	34,754	56,796	22,042	0.0%
Local Assistance	6,249	-	(6,249)	0.0%
Grants	80,404,782	94,727,153	14,322,371	6.4%
Benefits/Claims	1,512,292,656	1,684,281,156	171,988,500	77.4%
Transfers	29,221	-	(29,221)	0.0%
Debt Service	1,102,298	1,062,286	(40,012)	0.0%
Total Costs	<u>\$1,973,397,909</u>	<u>\$2,195,582,098</u>	<u>\$222,184,189</u>	<u>100.0%</u>
General Fund	\$ 525,526,015	\$ 531,203,907	5,677,892	2.6%
State Special	58,841,126	79,072,778	20,231,652	9.1%
Federal Funds	<u>1,389,030,768</u>	<u>1,585,305,413</u>	<u>196,274,645</u>	<u>88.3%</u>
Total Funds	<u>\$1,973,397,909</u>	<u>\$2,195,582,098</u>	<u>\$222,184,189</u>	<u>100.0%</u>
Percent Increase			11.3%	

Major Components of the DPHHS Budget Request

The two most significant DPHHS functions supported by general fund are Medicaid and state institution services. Together these two functions account for 70 percent of the 2005 biennium general fund request and 40 of the FTE funded in the Executive Budget. If the legislature wishes to make significant general fund changes, especially general fund reductions, it must consider, and potentially concentrate its effort, in these two areas in order to impact general fund spending. Both areas are complex and change must be carefully designed and implemented in order to limit unintended consequences.

Figure 3
2005 Biennium Medicaid Budget Request Compared to
2003 Biennium and DPHHS Total Budget Request

Program	General Fund	Percent of Total	Total	Percent of Total
Primary Care Services	\$ 128,614,538	46%	\$ 531,052,744	45%
Long Term Care	91,965,665	33%	346,979,188	29%
Mental Health/Chemical Dependency	36,865,350	13%	213,198,898	18%
Developmental Disability	23,730,473	8%	97,610,049	8%
Total 2005 Biennium	<u>\$ 281,176,026</u>	<u>100%</u>	<u>\$ 1,188,840,879</u>	<u>100%</u>
Total 2003 Biennium	\$ 263,303,732		\$ 1,126,560,824	
Change From 2003 Biennium	\$ 17,872,294		\$ 62,280,055	
DPHHS Total Budget Request 2005 Biennium	\$ 531,203,907		\$ 2,195,582,098	
Medicaid as a % of Total	53%		54%	

Figure 3 shows the 2005 biennium budget request for Medicaid services. Medicaid programs are administered by four divisions in the department. Medicaid services are 53 percent of the general fund 2005 biennium budget request and 54 percent of total funds.

Figure 4
Department of Public Health and Human Services
Summary of Institutional Costs

Division/Cost Funding	Actual Fiscal 2002*	Requested Fiscal 2004	Requested Fiscal 2005	Actual Fiscal 2002	Requested Fiscal 2004	Requested Fiscal 2005	2005 Biennium Total
Disability Services Division							
	Montana Developmental Center			Eastern Montana Human Services Ctr.			
FTE	296.64	323.12	323.12	97.47	97.47	97.47	420.59
Personal Svcs	\$ 10,766,777	\$ 12,184,873	\$ 12,240,675	\$ 3,151,271	\$ 3,595,308	\$ 3,625,156	\$ 31,646,012
All Other*	1,510,746	1,990,474	2,003,862	465,059	581,037	579,617	5,154,990
Total	\$ 12,277,523	\$ 14,175,347	\$ 14,244,537	\$ 3,616,330	\$ 4,176,345	\$ 4,204,773	\$ 36,801,002
General Fund	\$ 12,277,523	\$ 14,175,347	\$ 14,244,537	\$ 3,616,330	\$ 4,176,345	\$ 4,204,773	\$ 36,801,002
Population	92	92	92	33	33	33	125
Costs Per Person	\$ 133,451	\$ 154,080	\$ 154,832	\$ 109,586	\$ 126,556	\$ 127,417	\$ 294,408
Costs Per Day	\$ 366	\$ 422	\$ 424	\$ 300	\$ 347	\$ 349	\$ 807
Percent Increase		15.46%	0.49%		15.49%	0.68%	
Addictive and Mental Disorders Division							
	Montana State Hospital			Mental Health Nursing Care Cntr			
FTE	361.80	338.87	338.87	144.26	122.70	122.70	461.57
Personal Svcs	\$ 13,043,902	\$ 16,077,981	\$ 16,191,258	\$ 4,760,355	\$ 4,418,035	\$ 4,453,825	\$ 41,141,099
All Other**	3,562,634	3,899,997	4,113,372	1,914,818	1,770,068	1,856,474	11,639,911
Total	\$ 16,606,536	\$ 19,977,978	\$ 20,304,630	\$ 6,675,173	\$ 6,188,103	\$ 6,310,299	\$ 52,781,010
General Fund	\$ 16,531,536	\$ 19,638,674	\$ 19,872,670	\$ 6,675,173	\$ 6,188,103	\$ 6,310,299	\$ 52,009,746
State Special Rev.	75,000	339,304	431,960				
Population	175.75	135	135	114.75	70	70	205
Costs Per Person	\$ 94,490	\$ 147,985	\$ 150,405	\$ 58,171	\$ 88,401	\$ 90,147	\$ 257,468
Costs Per Day	\$ 259	\$ 405	\$ 412	\$ 159	\$ 242	\$ 247	\$ 705
Percent Increase		56.62%	1.64%		51.97%	1.97%	
	Montana Chemical Dependency Center						
FTE	48.25	48.25	48.25				48.25
Personal Svcs	\$ 1,602,803	\$ 2,051,481	\$ 2,062,241				\$ 4,113,722
All Other*	962,827	1,074,399	1,128,780				2,203,179
Total	\$ 2,565,630	\$ 3,125,880	\$ 3,191,021				\$ 6,316,901
State Special Rev.	\$ 1,966,013	\$ 2,476,355	\$ 2,321,567				
Federal Funds	599,617	649,525	869,454				
Population	53.85	53.85	53.85				
Costs Per Person	\$ 47,644	\$ 58,048	\$ 59,258				
Costs Per Day	\$ 131	\$ 159	\$ 162				
Percent Increase		21.84%	2.08%				
Senior and Long Term Care Division							
	Montana Veterans' Home			Eastern MT Veterans' Home			
FTE	123.09	123.09	123.09	1.01	1.01	1.01	124.1
Personal Svcs	\$ 3,047,548	\$ 4,228,528	\$ 4,254,492	\$ 41,716	\$ 41,107	\$ 44,583	\$ 8,568,710
All Other*	1,373,339	1,565,924	1,570,497	1,079,120	1,386,591	1,407,798	5,930,810
Total	\$ 4,420,887	\$ 5,794,452	\$ 5,824,989	\$ 1,120,836	\$ 1,427,698	\$ 1,452,381	\$ 14,499,520
State Special Rev.	\$ 4,345,887	\$ 5,455,148	\$ 5,393,029	\$ 120,874	\$ 201,129	\$ 205,096	\$ 14,160,216
Federal	75,000	339,304	431,960	999,962	1,226,569	1,247,285	339,304
Population		101	101		60	60	161
Costs Per Person		\$ 57,371	\$ 57,673		\$ 23,795	\$ 24,206	\$ 90,059
Costs Per Day		\$ 157	\$ 158		\$ 65	\$ 66	\$ 247
Percent Increase			0.53%			1.73%	
Total FTE and Funding							
Total Personal Svcs.							\$ 85,469,543
% of DPHHS Total							36.1%
FTE	1,216.78						1,054.51
% of DPHHS Total	43.6%						37.4%
General Fund	\$ 28,809,059						\$ 88,810,748
% of DPHHS Total	11.1%						16.7%
State Special Rev.	\$ 6,507,774						\$ 14,160,216
Federal	\$ 1,674,579						\$ 339,304
Total	\$ 36,991,412						\$ 103,310,268
% of DPHHS Total							4.7%

*This amount does not include \$2.1 million general fund expenditures from a one-time-only appropriation for development of community services or increased hospital costs. If the \$2.1 million were included the change between fiscal year 2002 and 2005 would be about 33%.

Figure 4 summarizes the funding for the seven state operated institutions administered by the department. General fund support for the seven institutions totals \$88.8 million for the 2005 biennium, about 17 percent of the department's general fund budget. Funding for the state institutions (all funds) comprises about 5 percent of the department's budget. Of the department's 2,820.83 FTE, 1,054.51, or 37 percent are employees at the state institutions administered by DPHHS. Personal services costs for the seven state institutions total \$85.5 million and comprises 36 percent of the department personal services budget.

Major Categories of Expenditure

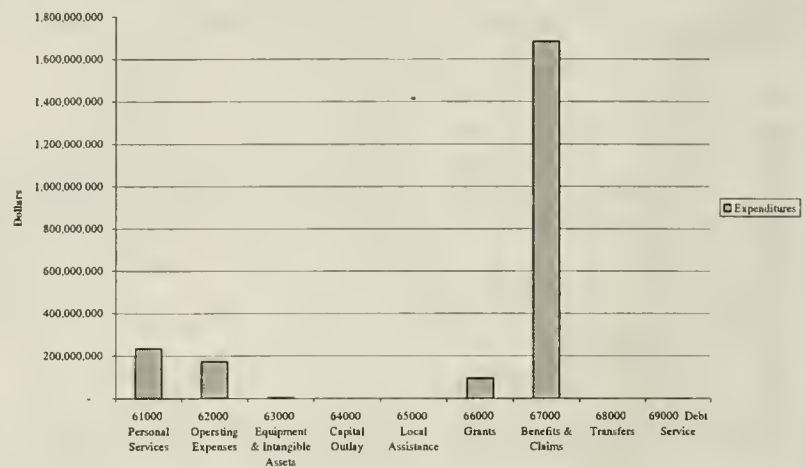
As illustrated in Figure 5, benefit and claims expenditures account for almost 77 percent or \$1.7 billion of the department's \$2.2 billion budget. The next three largest categories of expenditure – personal services (11 percent), operations (8 percent), and grants to other entities (4 percent) – combined, comprise 23 percent of the department budget, respectively.

Biennial Budget Increases

DPHHS is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 24 percent of the department 2005 biennium budget and increases 1 percent above the 2003 biennium general fund support for the department. State special revenue and federal funds provide about 4 and 72 percent of the department 2005 biennium funding, respectively. State special revenues increase 34 percent between the 2003 and 2005 biennia and federal funds increase 14 percent between the two biennia.

Figure 5

DPHHS
2005 Biennium Expenditures by Category



Service Reductions and Eliminations Including the Biennial Decrease

The Executive Budget includes cutbacks totaling \$35.7 million general fund and \$83.4 million total funds (Figure 6). Service reductions and eliminations total \$31.4 million general fund and \$76.4 million total funds, over 90 percent of the proposed reductions. Reduced funding for personal services is \$3.2 million general fund and about \$4.0 million total funds or almost 6 percent of the reductions. The remaining reductions include operating costs decreases and possible provider rate reductions.

Figure 6

Department of Public Health and Human Services
Summary of 2005 Biennium Reductions Included in the Executive Budget

Action	Human & Community Svcs		Child & Family Svcs		Child Support Enforcement		Health Policy & Svcs		Addictive & Mental Disorders			
	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total
Provider Rate Reductions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Service Limitations/Reductions	1,129,862	30,821,064	3,452,590	3,452,590	-	-	4,090,036	9,789,487	16,202,159	18,168,100		
Incr Client Financial Participation	-	-	-	-	-	-	-	-	-	-		
Personal Service Reductions	271,973	543,946	261,860	455,162	-	-	40,418	85,140	2,084,057	2,150,477		
Operating Plan Reductions	329,061	658,122	-	-	-	21,158	-	-	-	-		
Total Change by Division	\$1,730,896	\$32,023,132	\$3,714,450	\$3,907,752	\$0	\$21,158	\$4,130,454	\$9,874,627	\$18,286,216	\$20,318,577		

Action	Director's Office		Quality Assurance		Disability Services*		Senior & Long Term Care		Operations & Technology		Total		Percent of Total
	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	Gen Fd	Total	
Provider Rate Reductions	\$ -	\$ -	\$ -	\$ -	\$ 383,406	\$ 1,402,092	-	-	\$ -	\$ -	\$ 383,406	\$ 1,402,092	1.7%
Service Limitations/Reductions	-	-	-	-	4,067,268	6,884,668	2,430,800	7,263,938	-	-	31,372,715	76,379,847	91.5%
Incr Client Financial Participation	-	-	-	-	-	-	-	-	-	-	0	0	0.0%
Personal Service Reductions	-	-	63,656	179,572	433,946	563,217	-	-	-	-	3,155,910	3,977,514	4.8%
Operating Plan Reductions	-	-	-	-	-	-	-	-	505,501	994,920	834,562	1,674,200	2.0%
Total Change by Division	\$0	\$0	\$63,656	\$179,572	\$4,884,620	\$8,849,977	\$2,430,800	\$7,263,938	\$505,501	\$994,920	\$35,746,593	\$83,433,653	100.0%
Total Department Change	\$35,746,593	\$83,433,653											

Notes:

*The Disability Services Division plans to increase general fund available to the division by refinancing and hopes to avoid implementation of service and rate reductions

General Fund Increases

General fund support for the department increases due to caseload and other adjustments including:

- Caseload
 - Medicaid \$33 million general fund and \$125 million total funds
 - Subsidized adoption, \$1.3 million general fund and \$1.5 million federal funds
 - Foster care, \$5.0 million general fund and \$2.2 million federal funds
- TANF MOE \$1.2 million
- Institutional Costs
 - Montana Developmental Center, replace OTO funds, base adjustments, maintain certification - \$3.9 million
 - State hospital base adjustments - \$3.4 million
 - Eastmont base adjustments - \$0.6 million general fund
- Provider rate annualization
 - Tuition, \$0.06 million general fund
 - DDP wage parity, \$1.8 million general fund and \$1.7 million federal funds
 - Vocational rehabilitation, \$0.1 million general fund and \$0.2 million federal funds
- Loss of Federal Funds
 - DDP \$3.8 million general fund, however, federal funds were not reduced in the budget

Increases in general fund spending are offset by decreases due to:

- Funding reductions and eliminations totaling \$35.7 million, with the following major components:
 - Community mental health service reductions - \$16 million
 - Elimination of MIAMI (low birth weight and infant mortality prevention)
 - Elimination of Medicaid Hospice
 - Elimination of End Stage Renal Disease Program and Poison Control
- Refinancing
 - Foster care - \$6.0 million
 - DDP - \$3.6 million
- Fund switches that reduce general fund and increase another fund source by a like amount
 - Children's Health Insurance Program and Medicaid matching funds - \$8.2 million of tobacco settlement revenue allocated by Initiative 146 (I-146) passed in November 2002
 - \$2.0 million formerly distributed to local chemical dependency programs used for mental health Medicaid match
 - Mental health Medicaid match - \$1.2 million of county funds previously paid to community mental health center
 - I-146 tobacco settlement funds offset \$1 million general fund for tobacco control and prevention

Federal funds increase \$196 million between the two biennia with the majority of this increase due to increases in:

- Medicaid, \$92 million
- Food Stamp benefits, \$69.5 million
- Various federal grants
 - Bioterrorism, preventive health and other functions, \$27 million
 - Administered by the Human and Community Services Division (HCSD), \$20.1 million
 - Child and Family Services Division (CFSD), \$2.1 million
- Caseload increases
 - TANF cash assistance funding, \$7.3 million
 - Subsidized Adoption, \$1.5 million
 - Foster Care, \$2.2 million
- MDC and Eastmont Medicaid Reimbursement, \$3.0 Million
- Refinancing efforts which are expected to result in increased federal funds
 - Developmental Disabilities Program, \$11.7 Million
 - Child and Family Services, \$6.0 Million

These increases in federal funds are offset by decreases including:

- Reduction in childcare funding, \$15.2 million
- Reduction in TANF spending, \$10.0 million
- Service and provider rate reductions
 - Developmental Disabilities, \$3.8 million

Comparison of 2005 and 2003 Biennia Funding by Program

General fund and total fund support for each division for the 2003 and 2005 biennia are compared in Figure 7. General fund support for the department increases 1.1 percent (\$5.7 million). Changes in general fund support by division range from a decrease of almost 28 percent in the Director's Office to an increase of 10 percent in the Quality Assurance Division. The changes in these two divisions are the largest when calculated as a percentage change, but in terms of total dollars, these two divisions only account for about 1 percent of the total agency general fund.

Figure 7 Department of Public Health and Human Services Summary of Funding by Division 2003 and 2005 Biennia							
Division	2003 Biennium		2005 Biennium		Percent Increase		Percent Increase
	General Fund	Total Funds	General Fund	Total Funds	Gen. Fund	Total Funds	
Human & Comm. Svcs	\$ 43,944,546	\$ 305,753,233	\$ 44,544,504	\$ 369,921,226	1.4%	21.0%	
Child & Family Svcs	43,162,557	92,904,209	39,746,069	101,776,577	-7.9%	9.6%	
Director's Office	2,871,211	9,616,870	2,071,492	10,730,554	-27.9%	11.6%	
Child Support Enforcement	448,878	19,070,282	449,994	20,234,840	0.2%	6.1%	
Fiscal Services	4,809,983	10,356,322	4,756,140	10,208,606	-1.1%	-1.4%	
Health Policy and Services	130,348,155	615,702,835	131,963,154	674,878,359	1.2%	9.6%	
Quality Assurance	4,084,388	14,773,673	4,492,258	15,360,862	10.0%	4.0%	
Operations & Technology	18,293,553	49,284,346	18,058,972	50,510,675	-1.3%	2.5%	
Disability Services	86,332,606	225,344,316	94,028,195	244,782,831	8.9%	8.6%	
Senior & Long Term Care	89,319,151	366,788,682	88,397,756	388,935,392	-1.0%	6.0%	
Addictive & Mental Disod.	101,910,987	263,802,595	102,695,373	308,242,176	0.8%	16.8%	
Total	\$ 525,526,015	\$ 1,973,397,363	\$ 531,203,907	\$ 2,195,582,098	1.1%	11.3%	

The only division other than the Quality Assurance Division to experience more than a 2 percent increase in general fund support is the Disability Services Division, whose general fund support increases almost 9 percent. General fund support for the Disability Services Division (DSD) increases \$7.7 million between the two biennia, or \$2 million more than the \$5.7 million general fund increase for the entire agency. Reductions in other programs offset increases in DSD.

The only division other than the Director's Office to experience a general fund reduction of more than 2 percent is the Child and Family Services Division, whose general fund support decreases almost 8 percent (\$3.4 million). The remaining divisions experience general fund increases or decreases ranging from a 1.3 percent decrease to a 1.4 percent increase.

Funding Summary

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2005 Biennium Executive Budget					
<u>Agency Program</u>	<u>General Fund</u>	<u>State Spec.</u>	<u>Fed Spec.</u>	<u>Grand Total</u>	<u>Total %</u>
Human And Community Services Division	\$ 44,544,504	\$ 1,020,502	\$ 324,356,220	\$ 369,921,226	16.8%
Child & Family Services Div	39,746,069	3,662,100	58,368,408	101,776,577	4.6%
Director'S Office	2,071,492	3,959,992	4,699,070	10,730,554	0.5%
Fiscal Services Division	4,756,140	573,818	4,878,648	10,208,606	0.5%
Health Policy & Services Division	131,963,154	21,405,573	521,509,632	674,878,359	30.7%
Quality Assurance Division	4,492,258	542,000	10,326,604	15,360,862	0.7%
Operations & Technology Div	18,058,972	1,864,731	30,586,972	50,510,675	2.3%
Disability Services Division	94,028,195	112,050	150,642,586	244,782,831	11.1%
Senior & Long-Term Care	88,397,756	22,623,182	277,914,454	388,935,392	17.7%
Addictive & Mental Disorders	102,695,373	16,987,447	188,559,356	308,242,176	14.0%
Child Support Enforcement	449,994	6,321,383	13,463,463	20,234,840	0.9%
Grand Total	\$ 531,203,907	\$ 79,072,778	\$ 1,585,305,413	\$ 2,195,582,098	100.0%

DPHHS is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 24 percent of the department's 2005 biennium budget, while state special revenue and federal funds provide about 4 and 72 percent of the department's funding, respectively.

As illustrated in the table above, five divisions receive over 90 percent of department funding. Funding for Health Policy and Services Division, which administers the largest Medicaid program, equates to more than 30 percent of department funding. Senior and Long Term Care (17.7 percent), Human and Community Services (16.8 percent), Addictive and Mental Disorders (14.0 percent), and Disability Services (11.1 percent) together comprise about 60 percent of department funding.

A similar funding split is exhibited in the allocation of department general fund. The five divisions listed above comprise over 86 percent of the department general fund budget. However, Human and Community Services, while the third largest division in total funds, is the fifth largest in general fund support. Health Policy and Services (24.8 percent), Addictive and Mental Disorders (19.3 percent), Disability Services (17.7 percent) and Senior and Long Term Care (16.6 percent) combined account for nearly 80 percent of the department general fund budget.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	Present Law Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Biennium Fiscal 02-03	Total Exec. Budget Fiscal 04-05
FTE	2,796.10	22.23	2,818.33	2,798.60	22.23	2,820.83	2,788.09	2,820.83
Personal Services	117,062,483	1,007,022	118,069,505	117,435,104	1,006,237	118,441,341	212,996,772	236,510,846
Operating Expenses	83,730,831	4,388,176	88,119,007	83,955,212	3,653,570	87,608,782	165,233,388	175,727,789
Equipment	1,389,217	3,000	1,392,217	1,823,855	0	1,823,855	1,297,789	3,216,072
Capital Outlay	28,398	0	28,398	28,398	0	28,398	34,754	56,796
Local Assistance	0	0	0	0	0	0	6,249	0
Grants	47,577,332	186,533	47,763,865	47,576,505	(613,217)	46,963,288	80,404,782	94,727,153
Benefits & Claims	820,519,305	4,573,202	825,092,507	852,378,716	6,809,933	859,188,649	1,512,292,656	1,684,281,156
Transfers	0	0	0	0	0	0	29,221	0
Debt Service	504,399	52,738	557,137	504,399	750	505,149	1,102,298	1,062,286
Total Costs	\$1,070,811,965	\$10,210,671	\$1,081,022,636	\$1,103,702,189	\$10,857,273	\$1,114,559,462	\$1,973,397,909	\$2,195,582,098
General Fund	276,544,506	(14,242,997)	262,301,509	284,076,356	(15,173,958)	268,902,398	525,526,015	531,203,907
State/Other Special	30,873,794	7,864,401	38,738,195	31,299,373	9,035,210	40,334,583	58,841,126	79,072,778
Federal Special	763,393,665	16,589,267	779,982,932	788,326,460	16,996,021	805,322,481	1,389,030,768	1,585,305,413
Total Funds	\$1,070,811,965	\$10,210,671	\$1,081,022,636	\$1,103,702,189	\$10,857,273	\$1,114,559,462	\$1,973,397,909	\$2,195,582,098

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 7 - DOE Weatherization Training Grant										
02	0.00	0	0	228,905	228,905	0.00	0	0	0	0
DP 9 - Housing Opportunities for Persons With AIDS-HOPWA										
02	0.00	0	0	738,909	738,909	0.00	0	0	0	0
DP 28 - Refinancing - Federal Funds										
03	0.00	(3,000,000)	0	3,000,000	0	0.00	(3,000,000)	0	3,000,000	0
DP 29 - MTAP Mt Relay Video Relay Service - OTO										
04	0.00	0	144,600	0	144,600	0.00	0	144,600	0	144,600
DP 30 - MTAP Eligibility Technician										
04	1.00	0	34,927	0	34,927	1.00	0	34,823	0	34,823
DP 32 - Montana Abstinence Program										
04	1.00	0	0	42,264	42,264	1.00	0	0	42,126	42,126
DP 33 - Corporation for National Services										
04	0.75	0	0	343,915	343,915	0.75	0	0	343,811	343,811
DP 37 - Family Planning Supplemental Authority										
07	0.50	0	0	251,963	251,963	0.50	0	0	115,583	115,583
DP 40 - Obesity Prevention Program										
07	2.00	0	0	417,510	417,510	2.00	0	0	417,232	417,232
DP 42 - Immunization Increase										
07	0.00	0	0	300,000	300,000	0.00	0	0	300,000	300,000
DP 45 - Behavior Risk Factor Surveillance Coordinator										
07	1.00	0	0	53,398	53,398	1.00	0	0	53,252	53,252
DP 48 - Fetal Alcohol Syndrome Coordinator										
07	1.00	0	0	50,798	50,798	1.00	0	0	50,652	50,652
DP 49 - Pay Off Wells Fargo Loan for Equipment										
07	0.00	0	51,988	0	51,988	0.00	0	0	0	0
DP 51 - WIC Administrative Support										
07	1.00	0	0	0	0	1.00	0	0	0	0
DP 52 - Medicaid Breast & Cervical Cancer Treatment Prog										
07	0.00	207,174	0	339,055	546,229	0.00	208,378	0	337,851	546,229
DP 53 - Montana Breast & Cervical Health Program										
07	1.00	0	0	939,750	939,750	1.00	0	0	939,618	939,618
DP 54 - Epidemiology Support for Diabetes Program										
07	0.50	0	0	27,506	27,506	0.50	0	0	27,434	27,434
DP 55 - School Health Coordinator										
07	1.50	0	85,284	0	85,284	1.50	0	85,101	0	85,101

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 65 - School Services Contract and Program Monitor										
07	1.00	(113,257)	0	8,178,235	8,064,978	1.00	(277,648)	0	8,026,626	7,748,978
DP 66 - Medicaid Pharmacy Audit										
07	0.00	(23,341)	0	(275,461)	(298,802)	0.00	(54,862)	0	(356,640)	(411,502)
DP 67 - Laboratory Equipment Replacement										
07	0.00	0	195,000	0	195,000	0.00	0	195,000	0	195,000
DP 74 - County Public Health Department Administrative IGT										
07	0.00	0	125,000	125,000	250,000	0.00	0	125,000	125,000	250,000
DP 82 - DD Funding at Current Level of Service										
10	0.00	1,899,878	0	0	1,899,878	0.00	1,899,878	0	0	1,899,878
DP 88 - DDPAC Federal Grant Increase										
10	0.00	0	0	25,900	25,900	0.00	0	0	25,900	25,900
DP 95 - MDC Direct Care FTE										
10	20.00	932,864	0	0	932,864	20.00	933,277	0	0	933,277
DP 102 - TBI Grant Spending Authority										
22	1.00	0	0	125,000	125,000	1.00	0	0	125,000	125,000
DP 104 - Nursing Hm FY 04-05 IGT Spending Authority										
22	0.00	0	1,395,391	3,766,988	5,162,379	0.00	0	2,434,817	6,520,010	8,954,827
DP 113 - Additional Federal Spending Authority										
22	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 114 - Aging/HCBS Conference Spending Authority										
22	0.00	0	59,053	0	59,053	0.00	0	63,430	0	63,430
DP 117 - MVH Staff										
22	1.40	0	54,858	0	54,858	1.40	0	54,896	0	54,896
DP 125 - Older Workers Program Grant										
22	0.00	0	0	560,000	560,000	0.00	0	0	560,000	560,000
DP 131 - Continue Data Infrastructure & Integration Grant										
33	1.00	0	0	146,415	146,415	1.00	0	0	103,585	103,585
DP 132 - Continue Community Incentive Grant										
33	0.00	0	0	800,000	800,000	0.00	0	0	0	0
DP 133 - MCDC Staffing Changes										
33	2.90	0	113,301	0	113,301	2.90	0	113,645	0	113,645
DP 154 - MSH DoC Agreements										
33	4.00	0	339,304	0	339,304	4.00	0	356,960	0	356,960
DP 237 - Cardiovascular Disease 1.5 FTE										
07	1.50	0	0	54,128	54,128	1.50	0	0	53,997	53,997
DP 240 - Eliminate ESRD Program										
07	0.00	(100,000)	0	0	(100,000)	0.00	(100,000)	0	0	(100,000)
DP 242 - Reduce Optional Services										
07	0.00	(250,000)	0	(671,829)	(921,829)	0.00	(250,000)	0	(656,783)	(906,783)
DP 244 - Limit Physicians Visits to 10 Per Year										
07	0.00	(700,561)	0	(1,882,629)	(2,583,190)	0.00	(760,809)	0	(1,998,745)	(2,759,554)
DP 245 - Eliminate Posion Control System										
07	0.00	(38,954)	0	0	(38,954)	0.00	(38,954)	0	0	(38,954)
DP 246 - Reduce Tumor Registry General Fund Support										
07	0.00	(26,774)	0	0	(26,774)	0.00	(26,774)	0	0	(26,774)
DP 247 - Eliminate Gen Fund Support for Public Health Lab										
07	0.00	(185,374)	0	0	(185,374)	0.00	(185,374)	0	0	(185,374)
DP 248 - Reduce Epidemiology and Surveillance Gen Fund										
07	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
DP 249 - Eliminate AIDS Prevention General Fund										
07	0.00	(42,000)	0	0	(42,000)	0.00	(42,000)	0	0	(42,000)
DP 250 - Eliminate MIAMI/Perinatal General Fund Support										
07	0.00	(567,128)	0	0	(567,128)	0.00	(567,128)	0	0	(567,128)
DP 251 - Eliminate Gen Fund Support For Farmers Market										
07	0.00	(12,828)	0	0	(12,828)	0.00	(12,828)	0	0	(12,828)
DP 252 - Eliminate Family Planning Gen Fund Support										
07	0.00	(25,948)	0	0	(25,948)	0.00	(25,948)	0	0	(25,948)
DP 253 - Fund Switch For The CHIP Program										
07	0.00	(4,096,947)	4,096,947	0	0	0.00	(4,258,500)	4,258,500	0	0
DP 254 - Reduce Provider Reimbursement										
07	0.00	(1,263,945)	0	(3,396,621)	(4,660,566)	0.00	(1,404,725)	0	(3,690,397)	(5,095,122)
DP 255 - Environmental Health Tracking										
07	2.00	0	0	510,866	510,866	2.00	0	0	510,866	510,866
DP 256 - Libby Asbestos Screening										
07	2.00	0	0	590,000	590,000	2.00	0	0	590,000	590,000
DP 257 - Transportation program changes										
07	0.00	(82,888)	0	(222,746)	(305,634)	0.00	(86,038)	0	(226,033)	(312,071)
DP 258 - Pharmacy Program Changes										
07	0.00	(82,372)	0	(221,360)	(303,732)	0.00	(82,372)	0	(216,402)	(298,774)
DP 259 - Reduce HPSD Administration										

New Proposals										
Program	FTE	Fiscal 2004				FTE	Fiscal 2005			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
07	0.00	(35,000)	0	0	(35,000)	0.00	(35,000)	0	0	(35,000)
DP 260 - Property Eligibility Exclusion Medicaid Reduction										
07	0.00	(92,101)	0	(247,504)	(339,605)	0.00	(92,101)	0	(241,961)	(334,062)
DP 261 - Rape Prevention										
07	0.00	0	0	77,521	77,521	0.00	0	0	77,521	77,521
DP 271 - Base Adjustment to BBBS										
03	0.00	(183,264)	0	0	(183,264)	0.00	(183,264)	0	0	(183,264)
DP 272 - Base Adjustment to Central Office										
03	0.00	0	0	0	0	0.00	(30,034)	0	0	(30,034)
DP 273 - Base Adjustment for CPS Daycare										
03	0.00	(325,013)	0	0	(325,013)	0.00	(325,013)	0	0	(325,013)
DP 274 - Base Adjustment for Domestic Violence										
03	0.00	(77,641)	0	0	(77,641)	0.00	(77,641)	0	0	(77,641)
DP 275 - Base Adjustment for Foster Care										
03	0.00	2,500,000	0	1,147,083	3,647,083	0.00	2,500,000	0	1,092,825	3,592,825
DP 276 - Base Adjustment for In Home Services										
03	0.00	(1,114,364)	0	0	(1,114,364)	0.00	(1,136,356)	0	0	(1,136,356)
DP 280 - FTE Reduction										
02	(1.00)	(12,430)	0	(12,430)	(24,860)	(1.00)	(12,398)	0	(12,398)	(24,796)
DP 281 - FTE Reduction										
03	(6.30)	(130,930)	(2,742)	(94,207)	(227,879)	(6.30)	(130,930)	(2,742)	(93,611)	(227,283)
DP 282 - FTE Reduction										
07	(1.00)	(20,209)	0	(22,421)	(42,630)	(1.00)	(20,209)	0	(22,301)	(42,510)
DP 284 - FTE Reduction										
22	(1.50)	(40,545)	0	(17,398)	(57,943)	(1.50)	(40,545)	0	(17,244)	(57,789)
DP 285 - FTE Reduction										
10	(9.02)	(216,506)	0	(65,067)	(281,573)	(9.02)	(217,440)	0	(64,204)	(281,644)
DP 286 - FTE Reduction										
08	(2.00)	(31,828)	0	(59,267)	(91,095)	(2.00)	(31,828)	0	(59,649)	(91,477)
DP 287 - FTE Reduction										
33	(5.00)	(154,942)	0	(33,255)	(188,197)	(5.00)	(155,010)	0	(33,165)	(188,175)
DP 294 - Eliminate Community Supports and Reduce SL										
10	0.00	(1,424,395)	0	(1,408,700)	(2,833,095)	0.00	(1,424,395)	0	(1,408,700)	(2,833,095)
DP 296 - DDP GF Reduction Due to Refinancing										
10	0.00	(1,800,000)	0	1,800,000	0	0.00	(1,800,000)	0	1,800,000	0
DP 297 - DDP Medicaid Provider Rate Reduction										
10	0.00	(189,850)	0	(510,187)	(700,037)	0.00	(193,556)	0	(508,499)	(702,055)
DP 339 - Federal Medicaid for School-based Mental Health										
33	0.00	0	0	5,000,000	5,000,000	0.00	0	0	6,000,000	6,000,000
DP 350 - Alcohol Tax - General Fund Replacement										
33	0.00	(1,000,000)	1,000,000	0	0	0.00	(1,000,000)	1,000,000	0	0
DP 353 - Medicaid Provider Reimbursement Reduction										
33	0.00	(423,255)	0	(1,137,418)	(1,560,673)	0.00	(475,293)	0	(1,248,657)	(1,723,950)
DP 355 - Chemical Dependency Access Payment										
33	0.00	271,200	0	728,800	1,000,000	0.00	275,700	0	724,300	1,000,000
DP 992 - Medicaid Provider Rate Cut										
22	0.00	(873,056)	0	(2,346,178)	(3,219,234)	0.00	(926,715)	0	(2,434,605)	(3,361,320)
DP 993 - Cut Home Health Therapy Benefits										
22	0.00	(34,000)	0	(91,369)	(125,369)	0.00	(34,000)	0	(89,322)	(123,322)
DP 994 - Reduce Meals on Wheels Program										
22	0.00	(257,000)	0	0	(257,000)	0.00	(257,000)	0	0	(257,000)
DP 995 - Eliminate Hospice Program										
22	0.00	(174,466)	0	(470,987)	(645,453)	0.00	(193,048)	0	(516,950)	(709,998)
DP 996 - Change Medicaid Eligibility Standards										
22	0.00	(593,011)	0	(1,593,608)	(2,186,619)	0.00	(788,275)	0	(2,070,902)	(2,859,177)
DP 998 - Remove APS Abuse Prevention Grants										
22	0.00	(50,000)	0	0	(50,000)	0.00	(50,000)	0	0	(50,000)
DP 999 - FY 03 Lien and Estate Expenditures										
22	0.00	(162,990)	162,990	0	0	0.00	(162,180)	162,180	0	0
DP 8063 - Pool & Spa Exemptions (Requires Legislation)										
07	0.00	0	8,500	0	8,500	0.00	0	9,000	0	9,000
Total	22.23	(\$14,242,997)	\$7,864,401	\$16,589,267	\$10,210,671	22.23	(\$15,173,958)	\$9,035,210	\$16,996,021	\$10,857,273

Agency Issues

Refinancing

Refinancing is the term that the Health and Human Services Appropriation Subcommittee has given to the concept of reducing general fund needed to support existing services due to the receipt of increased support from other sources. Most often that involves maximizing federal reimbursements claimed by the state. As the proportion of federal or other funds increases, general fund appropriation authority is freed up and can:

- Revert to the general fund
- Be used for service expansion or provider reimbursement
- Offset program reductions

During the August 2002 Special Session, the legislature authorized funding for 5.00 FTE to form a refinancing unit in DPHHS. Language was also added to HB 2 directing that the refinancing unit be funded from savings due to refinancing social worker case management services.

Since the August special session, staff have been hired and DPHHS let a contract to identify areas where other states have refinanced general fund costs. DPHHS has received a preliminary report from its consultant that identifies several issues pursued in other states. The department will review refinancing goals and progress with the legislature.

Foster Care, Targeted Case Management and Title IV-E Eligibility

The budget for the Child and Family Services Division includes a proposal decreasing general fund and increasing federal funds \$6 million for the biennium, because the division intends to maximize reimbursement for foster care children under Title IV-E of the Social Security Act (SSA) and to implement targeted case management for child welfare services as a Medicaid reimbursable service.

Title IV-E of the SSA reimburses states for eligible administrative, training, and benefit costs incurred on behalf of eligible foster care children. Title IV-E is an entitlement program, meaning that all eligible children can receive services and there is no upper limit on the amount that may be reimbursed by the federal government. Eligibility for Title IV-E is based upon the criteria the state had in place on July 16, 1996 under the Aid to Families with Dependent Children (AFDC) program. Under Title IV-E eligible costs are reimbursed:

- Administrative costs, 50/50 state/federal match
- Benefit costs, based upon the federal medical assistance participation rate (FMAP), which for Montana is about 27/73 state/federal match during the 2005 biennium
- Training costs, 25/75 state/federal match

The department intends to increase the percentage of foster care children that are eligible for reimbursement under the Title IV-E program. The department requests 6.00 FTE in fiscal 2004 and an additional 2.00 FTE in fiscal 2005 (8.00 FTE total) to facilitate the transfer of Title IV-E eligibility determination from the HCSD to the CFSD. The department believes this change will allow CFSD to aggressively pursue Title IV-E eligibility for the children in its custody.

If a review of cases indicates that a child was Title IV-E eligible but the department failed to claim reimbursement for this child, retroactive billing and reimbursement may occur. Generally, states may bill Title IV-E for costs incurred up to two years prior to the claim for reimbursement. No state plan amendments or federal approval is necessary in order for the department to review existing cases and more aggressively pursue Title IV-E eligibility for children entering foster care. However, the department may identify state plan and other changes needed to maximize reimbursements as they undertake review of the current systems.

The implementation of targeted case management under the Medicaid program means that the department will designate a group, in this case children in the child welfare system, as a target group to receive case management services. Doing so allows the department to bill Medicaid for case management services rendered on behalf of Medicaid eligible children in

the child welfare system and to recover Medicaid funding for some services currently supported by the general fund. In order to implement the reimbursement of targeted case management services by Medicaid, the following actions are needed:

- A Medicaid state plan amendment is necessary. Generally, states may claim reimbursement retroactively to the beginning of the quarter in which the state plan amendment is filed
- A methodology for capturing costs and establishing a reimbursement rate must be developed
- Case contacts eligible for Medicaid must be documented. Given the deficiencies in case file documentation identified by the Legislative Audit Division in its performance audit of Child Protective Services, training staff and implementing processes to assure the minimum Medicaid requirements for case contacts and documentation of services provided may be one of the difficulties faced by the division in implementing this refinancing option

Recovery of Social Security Benefits for Children in Foster Care

The CFSD also proposes adding 2.00 FTE to pursue social security related benefits received on behalf of foster care children, which would increase the amount of state special revenue received by the division. These funds are used to repay the state for the costs of the child's care. The division indicates that Montana currently receives social security related benefits for about 10 percent of the children in care. Other states have been able to obtain social security related benefits on behalf of as many as 20 percent of the children in care.

Developmental Disabilities

For at least the past two biennia, the Developmental Disabilities Program (DDP) has undertaken several refinancing efforts. In past biennia, many of these refinancing efforts were related to changes in the services that Medicaid specified as eligible for Medicaid reimbursement. Past refinancing efforts in the DDP utilized general fund savings that were realized to strengthen (increased provider reimbursements), and expand services (including the movement of individuals from state institutions and the waiting list to community services).

LFD ISSUE

Statutory Compliance: Use of General Fund to Support Medicaid Eligible Recipients and Services

The 2005 biennium budget for DDP includes a decision package decreasing general fund and increasing federal funds by \$3.6 million for the biennium due to refinancing of congregate living (group home) services. It is legislative staff understanding that historically DDP structured contracts with congregate living providers to include about 15-20 percent general fund, and services for some individuals who were Medicaid eligible were billed to the general fund rather than to federal Medicaid funds. The department indicated that effective December 2002, services for all clients living in congregate living services that are Medicaid eligible (have a Medicaid card) will be billed to Medicaid. The DDP practice of billing the general fund rather than Medicaid appears to violate Section 17-2-108, MCA, which requires the expenditure of nongeneral fund money whenever possible before using general fund appropriations. In addition to a potential violation of statutory provisions, it appears the division expended general fund unnecessarily. This funding could have been used to further strengthen and expand developmental disability or other service systems or to mitigate service and eligibility reductions implemented in other programs. Legislative staff has asked the division to determine how far back the department may retroactively bill Medicaid for these services. Additional general fund savings may be created if retroactive billing is completed. A more detailed discussion of this issue is included in the narrative for the Disability Services Division.

LFD ISSUE

Service and Rate Reductions may not be Implemented

The 2005 biennium budget for DDP also includes reductions of \$3.2 million general fund expenditures due to decreases in provider rates and elimination of Community Supports and Supported Living Services. However, division staff indicate that they have no plans to implement a provider rate decrease, but rather this reduction was placed in the budget so that the agency spending target was met. Additionally, the division indicated it will seek to create general fund savings by refinancing, rather than implement these two reductions. A more detailed discussion of this issue is included in the narrative for the Disability Services Division.

Refinancing Developmental Disabilities Children's Services

It may be possible for the DDP to create general fund savings by refinancing some children's services. The division indicated it is reviewing the possibility of obtaining a Medicaid waiver for the provision of some children's services known as Family Education and Support Services (FES). Additionally, legislative staff believe it may be possible to create a program within the Children's Health Insurance Program (CHIP) as a refinancing mechanism, which is discussed in the following section. Division staff indicated that they intend to pursue a Medicaid waiver as a preferred refinancing strategy and are in the process of determining how many children receiving FES services are already Medicaid eligible. Division staff thinks that a Medicaid waiver is preferable to CHIP because some families receiving FES may not be CHIP eligible due to the income limitations of the CHIP program. The division is also researching options to implement a co-payment requirement for some service recipients, including children's services.

Refinancing with CHIP Federal Funds

Montana receives an annual grant for the Children's Health Insurance Program (CHIP). Grant amounts have ranged from a high of \$15.2 million to a low of \$10.9 million. The grant requires a match of about 19 percent, which is about 8 percent lower than the Medicaid match rate. The state has three years to spend the grant beginning in the year the grant is received. Unexpended amounts revert to the federal government and have been redistributed. States that fully expended CHIP grants received more of the redistribution than states that did not fully expend grants.

Figure 8

Federal CHIP Grant Amounts, Expenditures, and Reversions by State and Federal Fiscal Years
Estimated Federal CHIP Funds Available to Spend During 2005 Biennium After Funding Current CHIP Program

Grant & Expenditures by State Fiscal Year	Federal Fiscal Years								Total
	1998	1999	2000	2001	2002	2003*	2004*	2005*	
Federal Grant by Federal Fiscal Year									
Total Grant	\$ 11,740,395	\$ 11,684,948	\$ 13,173,122	\$ 15,169,315	\$ 10,932,695	\$ 11,326,534	\$ 11,000,000	\$ 11,000,000	\$ 96,027,009
Expenditures by State Fiscal Year**									
1998									
1999	\$ 355,753								\$ 355,753
2000	3,270,917								3,270,917
2001	5,686,677	6,868,437							12,555,114
2002		3,506,843	8,817,552						12,324,395
2003*			4,355,570	7,673,660					12,029,230
2004*				7,495,655	4,238,410				11,734,065
2005*					6,694,285	5,024,892			11,719,177
Total Expended	\$ 9,313,347	\$ 10,375,280	\$ 13,173,122	\$ 15,169,315	\$ 10,932,695	\$ 5,024,892	\$ -	\$ -	\$ 63,988,651
Reverted to Fed.	2,427,048	1,309,668							3,736,716
Total Unexpended						6,301,642	11,000,000	11,000,000	28,301,642
Estimated Federal CHIP Grant Funds Available During 2005 Biennium After Funding Current Program							\$ 28,301,642		
Estimated State Funds to Match Federal CHIP Funds							\$ 5,400,000		

*Estimated amounts.

**The amount expended by state fiscal year is estimated and will be refined for presentation to the 2003 legislature. A state has three years to expend a CHIP grant before the balance reverts to the federal government.

Figure 8 shows the historic and projected federal grant levels compared to state fiscal year expenditures. The federal grant amounts are shown by federal fiscal year across the top of the figure, while the expenditures from each grant are shown by state fiscal year in the rows below the specific federal grant. For instance, the first grant of \$11.7 million was received in federal fiscal year 1998. DPHHS expended the following amounts from the grant:

- \$0.4 million in state fiscal 1999
- \$3.3 million in state fiscal 2000
- \$5.7 million in part of state fiscal 2001

DPHHS reverted \$2.4 million of the federal fiscal year 1998 grant. Total reversions so far have been \$3.7 million.

Figure 8 shows that \$28 million of CHIP federal grant funds would be available to spend during the 2005 biennium after fully funding the present level CHIP program as requested in the Executive Budget. About \$5 million in matching funds would be needed to match that grant level. Both grant amounts and matching funds are based on estimated amounts, which will be different than the grants actually received.

The legislature could consider several alternatives to use excess CHIP federal funds

- Refinance current general fund expenditures
- Expand the CHIP program
- Offset reductions made in some children's services

Refinance Current General Fund Expenditures

The legislature could consider refinancing some children's services that are currently funded from the general fund. Federal criteria allow states to establish separate programs, with different eligibility standards, and different service packages. For instance, DPHHS could establish a separate program for services for children who are developmentally disabled or seriously emotionally disturbed and establish financial eligibility up to 200 percent of the federal poverty level. The current CHIP program eligibility is 150 percent of the federal poverty level and provides physical health services similar to the state employee health plan.

LFD staff has presented this idea to the Legislative Finance Committee and 2001 legislature. The two areas that staff has considered are developmentally disabled (DD) services and preventive services for children at risk of abuse and neglect. The DD service area has more potential for refinancing than services children at risk of abuse and neglect because more of the services provided by the DD system are medical in nature. However, providing services through CHIP would require means testing, which DD has not implemented. It is possible that some services, particularly therapeutic services provided as in-home and family reunification services on behalf of foster care children, could be funded as a separate CHIP program.

Offset Children's Services Reductions

The legislature could consider offsetting some reductions to children's services. During fiscal 2002, expanded mental health services were offered to CHIP eligible children who were also seriously emotionally disturbed. Those services were discontinued as part of DPHHS's attempt to reduce general fund spending. Offsetting service reductions would require the legislature to identify a source of matching funds.

Expand CHIP

Expansion of the CHIP program would require additional matching funds. There are additional matching funds for CHIP available in the amount of tobacco settlement proceeds allocated by Initiative 146 passed in November 2002, which requires that funds be used to draw down the maximum CHIP grant possible. The excess match amount ranges between \$1.5 million to \$4.2 million depending on what the legislature wishes to do. That issue is discussed more fully in the "Tobacco Settlement Funds" section.

A CHIP expansion could also be used to expand children's services in health related areas in DD and in-home and family reunification services.

Mental Health Home and Community Based Services Waiver

The state may be able to refinance services, impact Medicaid growth rates, and make desirable mental health system changes through the implementation of a Home and Community Based Services (HCBS) waiver similar to those operating in Senior and Long Term Care and Developmental Disability systems. HCBS waivers are provided under Section 1915(c)

of the Social Security Act and can be used by states to provide services otherwise not eligible for Medicaid reimbursement to children and adults suffering from a disability that places them at risk of institutionalization. A HCBS waiver for children with mental health related disabilities might draw favorable support from the Centers for Medicare and Medicaid (CMS) because, like the developmental disabilities system, Montana's mental health system does not include a state-supported institution for children. Advantages of a HCBS waiver include:

- Costs are shared with the federal Medicaid program
- Services that are cost-effective and necessary to prevent institutionalization and that are not otherwise reimbursable with Medicaid funds, may be provided with Medicaid funds in an HCBS waiver, including services such as: respite care for family members, homemaker, and habilitation services
- Services that are designed to assist individuals to live and participate in their communities such as prevocational, supported employment, and supported living services may be provided in a HCBS waiver
- Persons who are otherwise Medicaid eligible only in an institutional setting may be Medicaid eligible under a HCBS waiver if the state requests a waiver of income and resource rules (Section 1902(a)(10)(C)(i)(III) of the Social Security Act)
- The number of recipients served by the waiver may be capped. The cap may be established at a set number or calculated based upon the level of state support appropriated for the waiver
- The dollar value of service per recipient may be capped. For example, the Developmental Disabilities Program Community Supports waiver provides each recipient a set dollar amount for the purchase of services covered by that waiver

Potential impacts that may not be viewed as positive include:

- Once the recipient is determined eligible for Medicaid waiver services, they are also eligible for all other Medicaid services provided under the state plan

Employment Security Account - Department of Labor and Industry

The Employment Security Account (ESA) was established by the 1983 legislature as a way to address then-insufficient federal funding. The intent of the ESA was to maintain delivery of employment services through, and prevent the closure of, rural Job Service Centers. At that time, the ESA was funded through an assessment of 0.10 percent on all taxable wages paid by employers. The 1999 legislature passed HB 282, which raised the assessment to its current level of 0.13 percent.

Prior to 1989, most of the revenues collected into the ESA were transferred into the Unemployment Insurance Trust Fund, as allowed by statute. Since 1989, the ESA has been used primarily to maintain the current level of employment services. However, to facilitate general fund relief in the August 2002 Special Session, use of the ESA was expanded. Most of the ESA funding budgeted directly for the local job service centers was replaced with federal Reed Act funding, and the freed up ESA funds were used to replace general fund in several programs. Additionally, for the 2005 biennium, the executive proposes to continue a portion of the fund switch to replace general fund in the Youth Challenge program within the Department of Military Affairs with ESA funding. Although the overall level of expenditures from the ESA has not changed, these funding switches have still established a precedent for future use and expansion of the fund.

The ESA is established in 39-51-409, MCA. There are no statutory or administrative limitations on use of the ESA. However, to gain support for the increase in the ESA assessment in 1999, DOLI states that it made assurances to the employers that it would strive to use the ESA only to maintain established levels of services already provided with the ESA without expanding the services. Additionally, the programs funded during the August 2002 Special Session, while expanding the use, stayed within the executive's guidelines of providing services that enhanced or expanded Montana's available workforce. Therefore, discussions on the use of the ESA will tend to be philosophical in nature.

To determine allocation of the ESA, the legislature will need to decide on the philosophy it wishes to apply to using funds from the account.

If the legislature wishes to stay within the precedent established during creation and subsequent modification of statute authorizing the ESA, programs funded would include those funded in the base year.

If the legislature wishes to create general fund savings by expanding use of the ESA while maintaining a focus on enhancing or expanding Montana's available workforce, the following state government programs, currently funded with general fund in the amounts indicated, could be considered for ESA funding:

- The state cost-offset grants for Apprenticeship and Training - \$140,000
- Jobs for Montana's Graduates - \$519,000
- Displaced Homemaker - \$235,000
- Job Registry - \$17,000
- Youth Challenge program - \$1.1 million
- Vocational Rehabilitation services administered by the Department of Public Health and Human Services - \$2.4 million
- Education, training and work related services funded with general fund counted as Temporary Assistance for Needy Families (TANF) maintenance of effort (MOE) administered by the Department of Public Health and Human Services - \$9.2 million

If the legislature wishes to create general fund savings while applying no limitations to the use of ESA, then most, if not all, programs supported all or in part by general fund could be eligible for ESA support.

The decision of where to use ESA funding involves three other factors:

- Whether the legislature wishes to continue the programs proposed for funding with the ESA by the executive, and at what level
- The corollary impact of increasing the amount of general fund available within an agency. For example, replacing general fund within one program in DPHHS could free up general fund to be used within the department to eliminate or mitigate certain service reductions currently proposed by the executive. The issue for the legislature then becomes whether mitigation of the service reductions in DPHHS is a higher priority than the uses of ESA proposed by the executive
- Based on current revenue projections and allocations in the executive budget, the stability of the ESA fund balance is questionable. Therefore, the ESA most likely cannot accommodate expanded uses without a backfill with other funding or a reduction in appropriations currently made from the account. For more information on the current and projected status of the ESA, please refer to the Department of Labor and Industry narrative

Therefore, the following options for use of the ESA are available:

- Maintain use of the ESA as funded in fiscal 2002. The Youth Challenge program would have to be funded with general fund or eliminated
- Use ESA funding with a broad definition of workforce development and expand use of the ESA into some/all of the programs identified above based on an overall consideration and prioritization of those programs for state funding
- Use ESA funding to replace general fund and mitigate other reductions based on an overall consideration and prioritization of those programs for state funding

Program reductions and eliminations (general fund portion for the biennium) that the legislature could consider funding with general fund made available due to an ESA funding switch include:

- Mental health services for children
- Medicaid limitation of physicians visits to 10 per year, \$1.5 million
- MIAMI (prenatal services), \$1.1 million
- Big Brothers Big Sisters, \$0.4 million
- Daycare for children at risk of abuse and neglect, \$0.7 million
- In-home services for children at risk of abuse and neglect, \$2.3 million
- Aging services, \$0.5 million
- Hospice services, \$0.4 million
- Visual services medical program, \$0.2 million
- Extended employment and independent living services, \$1.0 million

*Consistency Among Divisions*Criteria Determining Eligibility for Publicly Funded Services

The 2001 legislature directed the Disability Services Division to report on the impact of applying income criteria to determine eligibility for developmental disabilities program services and benefits on individuals, the waiting list for services, and the budget of the developmental disabilities program. Also, the legislature stated that the report to the Legislative Finance Committee should include, by age group and residential setting, the number and value of services provided to non-Medicaid eligible recipients with incomes at or below 200 percent of the federal poverty level and with incomes at or below 150 percent of the federal poverty level.

To comply with this requirement, the department developed two surveys, one for children's services and one for adult services. Case management and provider staff assisted the department in collecting the information requested on this survey.

A total of 223 adults, who received \$4.1 million of services, were included in the adult survey. Among this group, 27 individuals (12 percent) did not respond to the survey and 146 (65 percent) reported having income greater than the federal poverty level. The remainder of the group, 50 individuals, who received \$0.9 million of services, reported having income levels less than the federal poverty level.

The families of 827 children that received \$4.5 million of services were included in the children/family survey. Among this group, 155 families (19 percent) did not respond to the survey and 540 families (65 percent) reported having income greater than the federal poverty level. The remainder, 132 families (16 percent) who received \$0.8 million of services, reported having incomes at or below the federal poverty level.

Generally, programs administered by DPHHS employ income, assets, and other criteria, in addition to clinical criteria to determine those who are eligible to receive services from publicly funded systems. Exceptions to this general policy exist because of federal regulatory requirements. For example, income and asset tests are not used to determine which children/families receive child support enforcement services because federal regulation requires that the division provide services to anyone who applies. On the other hand, as a condition of participation in some publicly funded service systems, cooperation with child support enforcement for the purpose of costs recovery is mandated, including for families receiving cash assistance and children receiving federal Title IV-E funded foster care services.

The developmental disabilities program has been relatively unique among department programs, operating on a philosophy that all who have a developmental disability are eligible for services regardless of their financial ability to obtain services without public funding. While many envision this an ideal system, the reality of state finances may not be able to support this vision.

**LFD
ISSUE**Consistent use of Income and Asset Test to Determine Eligibility for Publicly Funded Services

The legislature may wish to adopt and apply policies similar to those used in other publicly funded systems to the developmental disabilities system. Examples of other policies adopted and implemented are:

- In order to be eligible for the Children's Health Insurance Program (CHIP) and the Mental Health Services Plan (MHSP), persons may not be eligible for Medicaid coverage
- Many programs including Medicaid, mental health services, and childcare services require the recipient to share in the cost of services through co-payment requirements
- Many programs require that the custodial parent cooperate with and assign child support to the state, so that the state might recover some of the costs of providing services

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(Cont.)**

- Individuals or families with resources above a certain level (other than a primary home and one car, which may be exempt) are often not eligible for publicly funded services such as Medicaid
- Eligibility for MHSP, some TANF funded programs, and CHIP is dependent upon income being no greater than 150 percent of the federal poverty level
- Eligibility for TANF cash assistance benefits is currently based upon countable income levels at or below about 40.5 percent of the federal poverty level
- Eligibility for childcare subsidies is based upon income levels up to 150 percent of the federal poverty level, with parents responsible for a co-payment, and priority for services given to TANF families, teen parents and those with the lowest income level
- Eligibility for MHSP is provided only to adults with a serious and disabling mental illness, while other low-income persons with less severe symptoms are not eligible for services
- Outpatient Medicaid mental health services are provided only to the most seriously mentally ill adults and emotionally disturbed adults and the number of outpatient sessions for adults will be limited

Elements of eligibility and service management from a variety of programs could be combined to establish unique financial and diagnostic eligibility criteria for developmental disabilities services. The legislature may wish to select criteria from the examples to be applied to developmental disability services. If the legislature wishes to direct the department to implement income, resources, or other criteria to determine eligibility for publicly funded developmental disabilities services, guidelines should be provided to the department in statute.

In addition to achieving more consistency among programs, the use of income and resource criteria to determine eligibility for publicly funded services might be employed as a strategy to limit the growth of expenditures for services and focus provision of services to the most needy.

Impact of Appropriation of Excess Federal Funds on Appropriation Laws

Historically, DPHHS has requested and received increased federal funding for refinancing efforts without concern about providing federal appropriations that might be in excess of department expenditures. During the 2003 biennium, given the deficit situation DPHHS is experiencing, legislative staff questioned whether or not appropriation laws required the general fund savings generated within DDP be used to offset funding shortfalls of other programs administered by DPHHS.

A legal opinion on this issue determined that providing excess federal appropriation authority for the DDP appears to have removed the refinancing of DDP from being subject to the provisions of Section 17-2-108, MCA. That section provides that the approving authority shall authorize the decrease of general fund appropriations of an agency by the amount of money received from federal sources in excess of the appropriation in the appropriation act unless certain conditions apply. If DDP had not had sufficient federal funds appropriated and requested additional federal funds, the provisions of Section 17-2-108, MCA would have resulted in a decrease in general fund appropriations by the amount of additional federal funds requested.

Provisions that the legislature included in HB 2 regarding the expenditure of general fund made available through refinancing, also had significant impact on this legal opinion. Because the legislature included permissive language that allowed the division to reinvest refinancing savings in the program (for expansion and provider rates, for example) actions that might have been expected under appropriation laws were not required because of the conditions the legislature attached to the appropriation.

The legislature may wish to consider the policy issues associated with appropriating excess federal funds and conditions attached to appropriations included in HB 2. If the legislature wishes to have the department general fund appropriation reduced by increased federal funds, "extra" federal funds should not be appropriated to the department and appropriation conditions included in HB 2 should be carefully considered. If the legislature wishes to provide the department latitude in the use of general fund if additional federal funds are recovered, appropriation of "extra" federal funds would facilitate this decision.

The Executive Budget requests additional federal authority above the level needed to fund anticipated services in both the Senior and Long Term Care Division and Disabilities Services Division. If the legislature approves the executive request, it could also consider allocating the refinancing appropriation to the refinancing unit in the Director's Office to ensure department wide coordination. If the legislature approves the executive request it could also consider whether to establish priorities for how the saved general fund should be used, which could require amendments to statute depending on policy decisions made by the legislature.

Tobacco Settlement Funds

Montana voters have passed two initiatives that govern the allocation and use of tobacco settlement proceeds. In November 2000, voters passed an initiative to establish a constitutional trust fund that receives 40 percent of the tobacco settlement proceeds (Article XII Section 4). In November 2002, voters passed Initiative 146 (I-146) that amends statute to create two state special revenue accounts and to direct how the funds in each account must be spent. There are issues related to the use of tobacco settlement trust fund income and state special revenue.

Figure 9 shows the total settlement revenue projected to be available as adopted by the Revenue and Transportation Interim Committee. The 40 percent allocation to the trust shows the total amount deposited to the corpus of the trust, while the amount in the Figure A-Trust shows the amount of trust income that can be appropriated.

Two-fifths of the tobacco settlement proceeds and one-tenth of the interest and income from the trust must be deposited to the trust fund, leaving 90 percent of the interest income available for appropriation. The principal and one-tenth of the interest and income deposited in the trust must remain inviolate unless appropriated by a two-thirds majority vote of the members of each house of the legislature.

Figure 9 Tobacco Settlement Revenue 2005 Biennium			
Estimated Total Revenue/ Allocation	Fiscal 2004	Fiscal 2005	Biennial Total
Total Settlement Revenue	\$ 28,223,000	\$ 28,930,000	\$ 57,153,000
40% to Trust	11,289,200	11,572,000	22,861,200
32 % to Prevention/ Control State Special Rev.	9,031,360	9,257,600	18,288,960
17% to CHIP Comp. Association State Special Rev.	4,797,910	4,918,100	9,716,010
Balance to General Fund	3,104,530	3,182,300	6,286,830

Appropriations from the trust must be used for tobacco prevention programs and state programs that provide health care benefits, services, or coverage for Montanans. Appropriations from the trust must not be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999.

I-146 created two state special revenue accounts. One account receives 32 percent - about \$9 million annually of the tobacco settlement proceeds and can be used for a comprehensive tobacco prevention program. The second account receives 17 percent (about \$5 million annually) and can be used to fund CHIP and the Comprehensive Health Association (CHA or the Association). The Association is a nonprofit legal entity of all insurers, health maintenance organizations, or health service organizations licensed or authorized to do business in Montana. The Association provides health insurance to persons who have been refused coverage by two insurance companies or has a restrictive rider or exclusion for a preexisting condition, which would substantially reduce coverage from that received by a person considered a standard risk. Unlike the constitutional trust income, tobacco settlement proceeds allocated by I-146 can be used to supplant current general fund spending.

**LFD
ISSUE**Use of Constitutional Tobacco Settlement Trust Fund

The corpus of the trust is estimated to be about \$36 million including 2005 biennium deposits. The legislature could consider appropriating the tobacco settlement trust fund balance to:

- Offset general fund in the Executive Budget request
- Restore funding for some of the proposed reductions or reductions that were implemented during the 2003 biennium
- Fund legislative policy initiatives

The advantages to the proposal are to fund policies and programs important to the legislature or to avoid further reductions. The disadvantages are that the legislature could be taking actions contrary to a voter passed initiative and using the trust would limit the income available to offset general fund in the in future years. As noted earlier, using funds from the corpus of the trust requires a two-thirds majority vote of each house.

**LFD
ISSUE**Shortfall in Executive Budget

Figure 10 shows the amount of constitutional tobacco settlement trust income requested in the Executive Budget compared to estimated revenues. The request is \$750,912 higher than anticipated revenues. The legislature may wish to ask DPHHS how it will absorb the reduction since the interest income offsets general fund costs and does not support new or expanded services. If the Executive Budget is adopted it would exacerbate the general shortfall in Medicaid services necessitating either additional reductions or more general fund than requested.

The legislature may also wish to consider allocating the constitutional tobacco settlement interest income to health care services or uses that clearly meet the criteria of non-supplantation of general fund. Two such uses include Medicaid breast and cervical cancer benefits and prescription drug costs. The Medicaid breast and cervical cancer expansion was approved by the 2001 legislature, that also suggested funding ongoing expenditures for the program from the constitutional trust. Prescription drug costs have grown significantly over the past several years and several new generation drugs would not have been available prior to December 1999.

Figure 10
Constitutional Trust Fund - Income and Budget Request
2005 Biennium

Income/Expenditures	Fiscal 2004	Fiscal 2005
Income*	\$ 2,217,600	\$ 2,927,700
2005 Biennium Budget Request		
Health Policy and Services	1,982,591	1,982,591
Senior and Long-Term Care	703,779	703,779
Addictive and Mental Disorders	<u>261,736</u>	<u>261,736</u>
Total Request	2,948,106	2,948,106
Request (Over) Under Revenue	<u>\$ (730,506)</u>	<u>\$ (20,406)</u>
Biennial Shortfall		<u>\$ (750,912)</u>

*Income is the amount adopted in revenue projections accepted by the Revenue and Transportation Interim Committee.

**LFD
ISSUE**Use of Tobacco Settlement Revenue Allocated by I-146

As noted earlier, I-146 created two state special revenue accounts that receive allocations from tobacco settlement revenue and funds from those accounts can be used to offset current general fund spending. However, funds must be spent for the intended uses, which are listed in statute:

17-6-606. Tobacco settlement accounts - purpose - uses. (1) The purpose of this section is to dedicate a portion of the tobacco settlement proceeds to fund a statewide comprehensive tobacco disease prevention program designed to:

- (a) discourage children from starting use of tobacco;
- (b) assist adults in quitting use of tobacco;
- (c) provide funds for the children's health insurance program; and

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(d) provide funds for the comprehensive health associate programs.

The Executive Budget does not include a request to fund the tobacco prevention program established by I-146 beyond offsetting about \$0.5 million of general fund costs for tobacco prevention activities in the base budget. Legislative staff requested that DPHHS provide a tobacco prevention plan for review by the legislature.

Additionally, the legislature could consider offsetting current general fund expenditures with tobacco settlement revenue allocated to prevention and cessation in the following areas:

- The state match for Medicaid related expenditures for smoking cessation physician counseling and prescribed cessation drugs
- Smoking cessation or tobacco prevention components of MIAMI (Montana Initiative for the Abatement of Infant Mortality), which is eliminated in the Executive Budget
- Smoking cessation or tobacco prevention components of community health programs that would qualify as matching funds for the Maternal Child Health Block grant since the Executive Budget eliminates state general fund programs and expenditures that have historically provided part of the match to receive the federal grant As noted in the Health Policy and Services Division budget analysis, the Executive Budget request allocates \$8.2 million of the tobacco settlement state special revenue to offset CHIP and Medicaid general fund costs over the 2005 biennium. Using funds allocated by I-146 as Medicaid match does not appear to meet the statutory purpose and use. Figure 11 shows how much tobacco settlement state special revenue is allocated in the Executive Budget.

Figure 11

Tobacco Settlement Revenue Allocated to
CHIP and Comprehensive Health Association

Estimated Revenue/ Executive Request	Fiscal 2004	Fiscal 2005	Biennial Total
Revenue	\$ 4,797,910	\$ 4,918,100	\$ 9,716,010
CHIP Match	2,738,141	2,810,311	5,548,452
Medicaid Match	<u>1,358,806</u>	<u>1,286,636</u>	<u>2,645,442</u>
Balance Remaining	\$ <u>700,963</u>	\$ <u>821,153</u>	\$ <u>1,522,116</u>

The executive requests \$2.6 million to offset general fund costs of Medicaid benefits, \$5.5 million to offset current general fund costs for CHIP, and none for the CHA. There is a projected remaining balance of \$1.5 million.

Medicaid matching funds is not specified as a use of funds allocated by I-146. If the legislature does not accept the executive request, it will need to appropriate additional general fund or reduce other functions or services to offset the funds requested for

Medicaid match. If the legislature accepts the Executive Budget, it could amend Section 17-6-606, MCA, to explicitly allow that use and to clarify whether only a portion of the proceeds allocated in that section could be used for Medicaid match or whether all funds could be used. This option would prevent any court action to interpret whether the executive rationale was legal and it could prevent DPHHS use of tobacco settlement proceeds in ways not contemplated by the legislature.

The legislature could consider using the remaining \$1.5 million balance to fund programs or services it considers necessary, offset general fund spending reductions, or offset current general fund spending. The legislature would not need to consider amending statute if the uses considered fit within statutory guidelines. If the legislature proposes amendments to this statute, the same disadvantages and advantages of using the constitutional trust corpus differently than originally anticipated by the voters apply.

Medicaid Eligibility Changes

The Executive Budget includes reductions totaling \$5.8 million (\$1.6 million general fund) due to proposed changes in Medicaid eligibility. These changes affect Medicaid budget requests in three divisions, with the foremost eligibility impacts listed first:

- Senior and Long Term Care (nursing home and community services for elderly and physically disabled)
- Health Policy and Services (primary care -hospital, doctor, and drug services)
- Addictive and Mental Disorders (mental health and chemical dependency services)

Each of the specific changes is discussed and the DPHHS estimate of the number of persons impacted by each change is listed. DPHHS estimates that together these four changes would impact 511 persons each month. In about half the cases, persons would still be eligible for Medicaid, but would use more of their own resources toward payment of medical bills. In some instances the changes would make them ineligible until they sold property and used the proceeds to pay for care. The impacts are shown in Figure 12.

Figure 12 Summary of Impact due to Medicaid Eligibility Change Proposed in Executive Budget			
Division/Service	Biennial Savings General Fund	Total	Percent of Total
Senior and Long Term Care			
Nursing Home	\$ (1,381,286)	\$ (5,045,796)	87%
Health Policy			
Primary Care Services	(184,202)	(673,667)	12%
Addictive and Mental Disorders			
Mental Health Services	(31,092)	(113,699)	2%
Total	<u>\$ (1,596,580)</u>	<u>\$ (5,833,162)</u>	100%

Count Non-home Real Property Listed for Sale

Non-home real property listed for sale would be countable (equity) against the Medicaid resource limit rather than excluded from the resource test. This change will cause some households (estimated at 87 per month) with real property to exceed the resource limit for Medicaid coverage, delaying eligibility.

Contract for Deed Change

The value of a contract for deed in the resource determinations for SSI-related Medicaid would be excluded, resulting in the individual receiving Medicaid right away, but leaving them with more income on a consistent basis to offset their own medical expenses and relieve some of the costs to Medicaid. Preserving the value of the contract for deed would also make it available for estate recovery purposes. This change would impact an estimated 120 applicants per month.

Life Estate Change

The value of life estates would be excluded when the life estate is being used to produce income and meets the requirement to do so. The penalty for not using the property to produce income would be denial of benefits for failure to access other benefits or an asset transfer penalty for failure to access a stream of income. This change would provide more income to the applicant/recipient on a consistent basis to offset medical expenses and relieve some of the costs to Medicaid. This change would impact an estimated 60 recipients per month.

Limit Exclusion of Home Property Under "Intent to Return" Policy

Currently, the value of the owned home is excluded indefinitely with an "intent to return" statement. This change would define "home" as the person's principal place of residence and specify that the individual must have physically resided at that residence within the past six months. (Other states already have this definition in place.) After six months have elapsed, the house would be considered a countable asset and either cause closure of Medicaid or require the house to be listed for sale. This change would impact an estimated 244 individuals living in nursing homes or personal care homes with no likelihood of returning home.

Other Issues

Olmstead

The U.S. Supreme Court issued its decision in the Olmstead v. L.C. case in June 1999. In this case, the court found that continued institutionalization violated the plaintiffs rights under the Americans with Disabilities Act (ADA) to live in the most integrated setting appropriate. Based upon the Olmstead decision, states are required to provide community based services for persons with disabilities who would otherwise be entitled to institutional services when: 1) the state's treatment professionals determine that such placement is appropriate; 2) the affected persons do not oppose such treatments; and 3) the placement can be reasonably accommodated taking into account the resources available to the state and the needs of others who are receiving state supported disability services.

Under the ADA, states are obliged to make reasonable modifications in policies, practices, or procedures when the modifications are necessary to avoid discrimination on the basis of disability unless the public entity can demonstrate that making the modifications would fundamentally alter the nature of the service program or activity (28 CFR 35.130(b)(7)). The U.S. Supreme Court indicated that the test as to whether a modification entails fundamental alteration of a program takes into account three factors: 1) the cost of providing services to the individual in the most integrated setting appropriate; 2) the resources available to the state; and 3) how the provision of services affects the ability of the state to meet the needs of others with disabilities. The court suggests that a state could establish compliance with the ADA if it demonstrates that it has: 1) a comprehensive, effective working plan for placing qualified persons with disabilities in less restrictive settings; and 2) a waiting list that moves at a reasonable pace not controlled by the state's endeavors to keep its institutions fully populated.

To date, the Senior and Long Term Care and Disability Services Divisions have developed Olmstead plans. The Addictive and Mental Disorders Division is still completing its plan. However, an agency-wide plan integrating division plans has not been prepared. While some divisions within the department are actively pursuing increased community placements, other service delivery systems, notably the mental health system, have implemented reductions in community-based services, and are proposing significant community service reductions in the Executive Budget. While service reductions have been implemented to reduce general fund spending during the 2003 biennium, decisions regarding reductions in the mental health system do not appear to give weight to the need to comply with Olmstead by balancing the need for community services with the institutional services. While selected service systems may be able to demonstrate efforts to comply with Olmstead requirements, it is unclear whether the department as a whole will be able to demonstrate efforts to comply with Olmstead.

Cumulative Reductions - 2005 Biennium Executive Budget and 2003 Biennium Actions

Figure 13 summarizes the fiscal impact of 2005 biennium budget reductions, August 2002 Special Session Reductions, reductions implemented according to Section 17-7-140, MCA, and 2003 supplemental mitigation efforts. Reductions to the department budget for these items total \$61.9 million general fund and \$152.9 million total funds. Reductions included in the 2005 biennium budget account for 50 percent of these reductions.

Figure 13

Department of Public Health and Human Services

Summary of 2005 Biennium Executive Budget Reductions and 2003 Biennium Reductions - Including Estimated Total Funds Impact 2005 Biennium Executive Budget, August 2002 Special Session, Legislative Action, 17-7-140, MCA and Supplemental Mitigation

Action	Human & Community Services		Child and Family Svcs		Child Support Enforcement		Health Policy & Services		Addictive & Mental Disorders		
	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	
2005 Biennium Exec. Budget	\$ 1,730,896	\$ 32,023,132	\$ 3,714,450	\$ 3,907,752	\$ -	\$ 21,158	\$ 4,130,454	\$ 9,874,627	\$ 18,286,216	\$ 20,318,577	
August 2002, Special Session	106,251	727,490	106,731	175,897	-	-	22,720	(257,662)	1,275,196	61,890	
17-7-140, MCA	1,275,138	2,088,821	996,441	1,578,541	22,500	66,176	1,553,097	5,584,436	2,834,011	6,677,961	
Supplemental Mitigation	-	-	-	-	-	-	7,591,497	28,038,472	3,159,894	10,186,436	
Total Change by Division	\$ 3,112,285	\$ 34,839,443	\$ 4,817,622	\$ 5,662,190	\$ 22,500	\$ 87,334	\$ 13,297,768	\$ 43,239,873	\$ 25,555,317	\$ 37,244,864	
Percent of Total	5.0%	22.8%	7.8%	3.7%	0.0%	0.1%	21.5%	28.3%	41.3%	24.4%	

Action	Director's Office		Quality Assurance		Disability Services*		Senior & Long Term Care		Operations and Technology		Total	
	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total	Gen. Fd.	Total
2005 Biennium Exec. Budget	\$ -	\$ -	\$ 63,656	\$ 179,572	\$ 4,884,620	\$ 8,849,977	\$ 2,430,800	\$ 7,263,938	\$ 505,501	\$ 994,920	\$35,746,593	\$83,433,653
August 2002, Special Session	8,183	23,071	22,694	64,705	2,179,686	354,348	(69,106)	(23,892)	2,101,416	7,019,871	5,753,771	8,145,718
17-7-140, MCA	128,459	134,359	156,557	208,960	881,392	1,610,597	1,240,325	4,060,074	513,839	1,097,720	9,601,759	23,107,645
Supplemental Mitigation	-	-	-	-	-	-	-	-	-	-	10,751,391	38,224,908
Total Change by Division	\$ 136,642	\$ 157,430	\$ 242,907	\$ 453,237	\$ 7,945,698	\$ 10,814,922	\$ 3,602,019	\$ 11,300,120	\$ 3,120,756	\$ 9,112,511	\$61,853,514	\$152,911,924
Percent of Total	0.2%	0.1%	0.4%	0.3%	12.8%	7.1%	5.8%	7.4%	5.0%	6.0%	100.0%	100.0%
Total Department Change	\$61,853,514	\$152,911,924										

Notes.

The Disability Service Division plans to increase general fund available to the division by refinancing and hopes to avoid implementation of service and rate reductions.

Almost \$2 million of the August 2002, Special Session general fund decrease for Disability Services Division was due to a funding switch. General fund was reduced and state special revenue increased.

Federal Poverty Level

Figure 14 shows the 2002 federal poverty level index by family size for various levels of poverty. The index is published each calendar year and updated in February or March.

Throughout the DPHHS budget analysis there are references to program financial eligibility based on an established level of poverty. The levels of poverty shown in Figure 14 reflect most of the financial eligibility levels for DPHHS programs. CHIP financial eligibility is currently 150 percent of poverty. Financial eligibility for some Medicaid programs for low-income children and pregnant women is established at 100 percent and 133 percent of the federal poverty level. MHSP financial eligibility is established at 150 percent of the poverty level. Chemical dependency services are provided to individuals with incomes below 200 percent of the federal poverty level.

Figure 14
2002 Federal Poverty Index
Levels of Poverty by Family Size

Size of Family Unit	Percent of Federal Poverty Level				
	100%	133%	150%	175%	200%
1	\$8,860	\$11,784	\$13,290	\$15,505	\$17,720
2	11,940	15,880	17,910	20,895	23,880
3	15,020	19,977	22,530	26,285	30,040
4	18,100	24,073	27,150	31,675	36,200
5	21,180	28,169	31,770	37,065	42,360
6	24,260	32,266	36,390	42,455	48,520
7	27,340	36,362	41,010	47,845	54,680
8	30,420	40,459	45,630	53,235	60,840
Each Additional Person	3,080	4,096	4,620	5,390	6,160

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	451.20	1.00	(1.00)	451.20	1.00	(1.00)	451.20	451.20
Personal Services	17,195,689	748,988	(24,860)	17,919,817	731,800	(24,796)	17,902,693	35,822,510
Operating Expenses	6,432,681	(826,413)	278,109	5,884,377	(1,358,889)	0	5,073,792	10,958,169
Equipment	56,607	(24,726)	0	31,881	(31,518)	0	25,089	56,970
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	14,657,382	1,358,818	0	16,016,200	1,911,592	0	16,568,974	32,585,174
Benefits & Claims	88,796,202	56,701,277	689,705	146,187,184	55,328,159	0	144,124,361	290,311,545
Transfers	0	0	0	0	0	0	0	0
Debt Service	56,592	36,837	0	93,429	36,837	0	93,429	186,858
Total Costs	\$127,195,153	\$57,994,781	\$942,954	\$186,132,888	\$56,617,981	(\$24,796)	\$183,788,338	\$369,921,226
General Fund	21,737,319	1,419,951	(12,430)	23,144,840	(325,257)	(12,398)	21,399,664	44,544,504
State/Other Special	411,046	99,205	0	510,251	99,205	0	510,251	1,020,502
Federal Special	105,046,788	56,475,625	955,384	162,477,797	56,844,033	(12,398)	161,878,423	324,356,220
Total Funds	\$127,195,153	\$57,994,781	\$942,954	\$186,132,888	\$56,617,981	(\$24,796)	\$183,788,338	\$369,921,226

Program Description

The Human and Community Services Division is comprised of three bureaus: 1) Public Assistance; 2) Early Childhood Services; and 3) Intergovernmental Human Services.

The Public Assistance Bureau administers Montana's welfare reform program funded by the Temporary Assistance to Needy Families (TANF) block grant. The bureau also provides eligibility determination services for Medicaid and food stamps.

The Early Childhood Bureau: 1) manages the funds which pay for childcare for TANF participants and low-income working families; 2) contracts with 12 resource and referral agencies for the administration of child care eligibility, provider recruitment, and technical assistance; 3) administers the Child and Adult Care Food Program, which provides reimbursement to child care providers for the cost of meals served to eligible children and adults; and 4) administers the Head Start state collaboration project and the Childcare Apprenticeship Grant.

The Intergovernmental Human Services Bureau administers: 1) the Community Services Block Grant used by ten Human Resource Development Councils to provide a wide range of community-based human services; 2) the Low-Income Energy Assistance Program and several other weatherization programs; 3) the Emergency Shelter Grants program; 4) the United States Department of Agriculture (USDA) commodities programs; and 5) the Housing Opportunities for People with AIDS Grant. The bureau also stores and distributes USDA commodity foods to a wide range of recipients.

Figure 15 illustrates the allocation of funding among the segments of the division. Public assistance functions account for the largest portion of the division funding, 71 percent. Energy and Commodity Assistance programs comprise 11 percent of the division funding and early childhood services including childcare, and child food and nutrition programs, comprise the remaining 18 percent of the division funding.

Statutory authority for the program is provided in Title 53, Chapter 2, MCA, and 45 CFR.

Figure 15
Human and Community Services Division
Summary of Major Program Functions with Funding

Function	Fiscal 2002 - Base Budget			Fiscal 2004 - Requested			Fiscal 2005 - Requested			Percent of Division Total
	General Fund	State Special	Federal	General Fund	State Special	Federal	General Fund	State Special	Federal	
Public Assistance										
Administration - Division	\$ 106,076	\$ -	\$ 248,058	\$ 354,134	\$ -	\$ 204,736	\$ 409,152	\$ -	\$ 205,727	0.2%
Administration - Public Assistance	981,202	728	1,053,658	2,035,588	75	900,156	1,883,693	75	899,658	1.0%
Administration - County	8,584,786	0	8,459,984	17,044,770	0	8,841,487	17,817,792	0	8,648,301	9.5%
TANF Cash Assistance	289,446	0	29,602,587	29,892,033	0	33,269,235	33,558,681	0	33,269,235	18.3%
TANF Employment, Training, Work	7,036,002	0	250,148	7,286,150	0	208,940	8,398,824	0	209,864	3.9%
TANF Supportive Services	1,102,753	0	(472)	1,102,281	0	(472)	1,102,281	0	(472)	0.6%
Refugee Programs	0	0	146,639	146,639	0	235,798	235,798	0	235,798	0.1%
Food Stamp Training & Support Services	549,146	165,000	1,191,377	1,905,523	165,000	1,169,181	1,883,327	165,000	1,169,759	1.0%
Food Stamp Benefits	110,874	0	9,945,780	10,056,654	148,709	65,657,140	65,805,849	143,314	65,662,535	35.8%
TANF Phase IIR	341,053	-	4,978,668	5,319,721	341,053	-	341,053	-	-	0.2%
Subtotal Public Assistance	19,101,338	165,728	55,876,427	75,143,493	20,785,174	110,486,201	131,436,450	165,075	110,300,405	70.7%
Percent of Total	25.4%	0.2%	74.4%	100.0%	15.8%	84.1%	100.0%	0.1%	84.9%	100.0%
Energy and Commodity Assistance										
Administration - Energy and Commodities	\$ 31,225	\$ -	\$ 3,709,694	\$ 3,740,919	\$ 31,804	\$ 3,780,765	\$ 3,812,569	\$ -	\$ 3,775,890	2.1%
Benefits - Energy and Commodities	76,000	245,318	12,096,880	12,418,198	76,000	17,104,865	17,526,041	345,176	16,137,055	9.0%
Subtotal Energy and Commodity Assistance	107,225	245,318	15,806,574	16,159,117	107,804	20,885,630	21,338,610	345,176	19,912,945	11.1%
Percent of Total	0.7%	1.5%	97.8%	100.0%	0.5%	1.6%	100.0%	1.7%	97.8%	100.0%
Early Childhood Services										
Administration - Child Care	\$ -	\$ -	\$ 403,736	\$ 403,736	\$ -	\$ 455,167	\$ 455,167	\$ -	\$ 457,143	0.2%
Childcare Matching	1,209,689	-	4,406,365	5,616,054	932,758	8,266,982	9,199,740	532,758	8,269,253	4.8%
Childcare Mandatory	1,313,990	-	2,090,175	3,404,165	1,313,990	2,086,400	3,400,390	1,313,990	2,086,400	1.9%
Childcare Descriptive	-	-	14,447,271	14,447,271	-	6,830,809	6,830,809	-	6,830,821	3.7%
Quality - Child Care	-	-	2,395,648	2,395,648	-	2,395,652	2,395,652	-	2,395,652	1.3%
Head Start	5,077	-	129,681	134,758	5,114	129,681	134,795	5,114	129,681	0.1%
Child and Adult Care Food Program	0	0	9,490,911	9,490,911	0	10,941,275	10,941,275	0	11,496,123	6.3%
Subtotal Early Childhood Services	2,528,756	-	33,363,787	35,892,543	2,251,862	31,105,966	33,357,828	1,851,862	31,665,073	18.2%
Percent of Total	7.0%	0.0%	93.0%	100.0%	6.8%	93.2%	100.0%	5.5%	94.5%	100.0%
Total Human and Community Services Div.	\$ 21,737,319	\$ 411,046	\$ 105,046,788	\$ 127,195,153	\$ 23,144,840	\$ 162,477,797	\$ 186,132,888	\$ 510,251	\$ 161,878,423	100.0%
Percent of Total	17.1%	0.3%	82.6%	100.0%	12.4%	87.3%	100.0%	11.6%	88.1%	100.0%

Program Narrative

Human and Community Services Division Major Budget Highlights	
○ General fund support for the division increases about 1 percent for the 2005 biennium over the 2003 biennium, and total funding increases 21 percent between the two biennia ○ Increased funding for food stamp benefits totals \$111.5 million federal funds for the biennium ○ Increases in federal grants totals \$20.1 million for the biennium ○ Reduction in childcare funding because TANF funds are not transferred is \$15.2 million federal funds ○ Reduction in TANF spending of \$10 million for the biennium ○ Increase in the TANF cash assistance caseload totals \$7.3 million federal funds for the biennium ○ Increases general fund support for TANF MOE is \$1.2 million general fund in the first year of the biennium	
Major LFD Issues	
○ Unexpended (reserve) TANF funds ○ Additional general fund to support TANF MOE requirements appears unnecessary ○ Potential funds that might be used to fulfill the TANF MOE requirements and decrease general fund requirements ○ If basic mental health services for kids program does not continue, additional general fund for TANF MOE will be needed	

Temporary Assistance for Needy Families (TANF)

Background

The federal Temporary Assistance for Needy Families (TANF) block grant supports public assistance programs for needy families. TANF was created in 1996 by the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA). This federal act is commonly known as "welfare reform". TANF replaced the program formerly known as the Aid to Families with Dependent Children (AFDC).

Under the TANF program, states receive a set level of federal funding to support public assistance programs. Montana's annual federal grant is about \$45 million. In order to receive the federal funds a state must continue to expend state and local resources at a level known as the "maintenance of effort" or "MOE". Montana's annual MOE, at 75 percent of historical expenditures, is about \$14.8 million. In order to receive federal funds, states must also meet other federal requirements including: mandated work participation rates; fulfilling data reporting requirements; limiting beneficiaries to a maximum of 60 months of benefits in their lifetime; and beneficiary assignment of child support to the state.

TANF funds must be expended to achieve one of four purposes of the program as specified in federal law: 1) to provide assistance to needy families; 2) to end dependency of needy parents by promoting job preparation, work, and marriage; 3) to prevent and reduce out of wedlock pregnancies; or 4) to encourage the formation and maintenance of two-parent families.

TANF Reauthorization

The original authorization of the TANF block grant by Congress expired September 30, 2002. Reauthorization of the grant has been pending in Congress. Currently, the block grant has been continued, as it exists through March 31, 2003. Congress will probably take up reauthorization of the block grant when it reconvenes. While the various bills introduced to reauthorize TANF vary significantly, they do contain some common threads. Most versions of TANF reauthorization include:

- Increased hours of work participation for recipients
- Increased levels (percentages of caseload) that must be participating in work activities
- A narrowing of the definition of activities that meet the federal definition of work, including limits on the number of hours of job search activities that may be counted, and months of training activities and chemical dependency treatment that may be counted
- Discontinuation of waivers - Specifically, Montana's waiver that allows for a broader definition of activities that meet the definition of work will probably be ended

Montana will be challenged to find more jobs, for more hours per week, with less flexibility in the definition of activities that fulfill the federal definition of work. For example, there will be a limit on the number of hours of job search, education and training that may be counted toward the federal requirements. Additionally, time spent in substance abuse and treatment programs that counts as work hours may be limited in duration and frequency. Recipients will be required to spend more hours per week in work activities and a larger percentage of the caseload will be required to participate in work activities. Compliance with work participation rates is important because if a state is in compliance, the percentage of historical expenditures that must be spent as maintenance of effort can be reduced to 75 percent, which Montana has done. If work participation rates are not met, maintenance of effort must be expended equal to 80 percent of the historical expenditure level, an increase of about \$1 million for Montana.

The state will likely find it difficult to supply adequate childcare to families subject to the TANF work requirements, and the programmatic requirements of the TANF grant will be more difficult to fulfill. However, it appears that Congress may authorize TANF appropriations at the same level as prior years, and there has not been recent discussion or action indicating that states will lose previous years' grant funds that remain unexpended. Additionally, Congress has considered increasing federal childcare appropriations but not to a level that most states believe will be adequate to fulfill the demand created by the revised TANF requirements.

LFD ISSUE

Potential Impacts of TANF Reauthorization

The legislature may wish to have the department present potential program changes that might be required to achieve compliance with changes in federal TANF requirements.

FAIM Phase IIR (Families Achieving Independence in Montana)

The Governor's budget includes reductions in federal TANF funding for several programs. During the 2001 session, the legislature appropriated over \$26 million of unexpended federal TANF funds that had been carried over from previous years for a number of projects. This group of programs is commonly referred to as FAIM Phase IIR or FAIM IIR. The legislature also included language in HB2 that allowed the Office of Budget and Program Planning (OBPP) to proportionally reduce the funding in these items if certain conditions existed. Those conditions were fulfilled and OBPP reduced the funding in FAIM Phase IIR and transferred this funding to an appropriation for cash assistance benefits.

Figure 16
FAIM Phase II-R

FAIM Phase II-K					
Item	2001 Session HB 2 Approp.	Expended Fiscal 2002	Approp.* Fiscal 2003	Biennial Total	Amount of Reduction
Parents As Scholars	\$ 1,331,183	\$ 254,391	\$ 155,510	\$ 409,901	\$ (921,282)
Tribal Projects	2,489,360	658,810	107,720	766,530	(1,722,830)
Tribal NEW	2,255,561	323,483	371,055	694,538	(1,561,023)
Non-Traditional Job Training	841,394	501,460	1	501,461	(339,933)
Other Non-Traditional Training Programs -Tribal	989,875	70,191	234,614	304,805	(685,070)
Other Non-Traditional Training Programs -Non-Tribal	494,937	152,402	-	152,402	(342,535)
High-Wage, High-Skill Training	980,045	298,975	2,802	301,777	(678,268)
Assessment Services - Intensive Case Management	2,164,241	202,751	463,666	666,417	(1,497,824)
Chemical Dependency Home	629,560	193,856	-	193,856	(435,704)
Learning Disabilities Services (OPI/Tribal Colleges)	593,924	139,923	42,960	182,883	(411,041)
Mental Health Services	494,937	8,176	144,225	152,401	(342,536)
Family Drug Court	395,950	38,654	83,267	121,921	(274,029)
Low-Income Housing**	3,464,561	5,000	1,061,816	1,066,816	(2,397,745)
Transportation	791,899	243,844	-	243,844	(548,055)
Additional Month Grant for Working Families	2,433,549	743,979	5,366	749,345	(1,684,204)
Emergency Supportive Services for Working Families	1,299,719	726,471	1,099	727,570	(572,149)
School Breakfast Program (HB 353)	178,178	-	54,865	54,865	(123,313)
Individual Development Accounts	274,728	54,383	30,212	84,595	(190,133)
Children as Scholars (Head Start)	1,979,874	90,321	519,327	609,648	(1,370,226)
TEAMS Repro curement/Enhancements	1,474,982	86,790	367,389	454,179	(1,020,803)
Children's Trust Fund	500,000	56,019	97,941	153,960	(346,040)
	<u>\$ 26,058,457</u>	<u>\$ 4,849,879</u>	<u>\$ 3,743,835</u>	<u>\$ 8,593,714</u>	<u>\$ (17,464,743)</u>
Percent of 2001 Session HB 2 Remaining				<u>33.0%</u>	
Cash Assistance Summary					
Fiscal 2002 Actual Expenditures	\$ 29,892,033				
2001 Session Appropriation	24,000,000				
Difference	<u>\$ 5,892,033</u>				
Biennial Difference if 2003 Expenditures equal 2002***	<u>\$ 11,784,066</u>				
Comparison of FAIM IIR Reduction to Cash Assistance Increase					
Increase in Cash Assistance Costs***	\$ 11,784,066				
Decrease in FAIM IIR	<u>(17,464,743)</u>				
FAIM IIR Reduction less Increase in Cash Assistance	<u>\$ (5,680,677)</u>				
*The amount shown is the appropriation as established in SABHRS. The amount has been proportionally reduced by the Office of Budget and Program Planning as allowed in HB 2.					
**During the August 2002 Special Session the amount of TANF funds provided to the Low-Income Housing account in statute was reduced to \$700,000.					
***This is the estimated amount that cash assistance costs for the 2003 biennium will exceed the appropriation made by the 2001 legislature, if fiscal 2003 cash assistance costs are the same as fiscal 2002.					

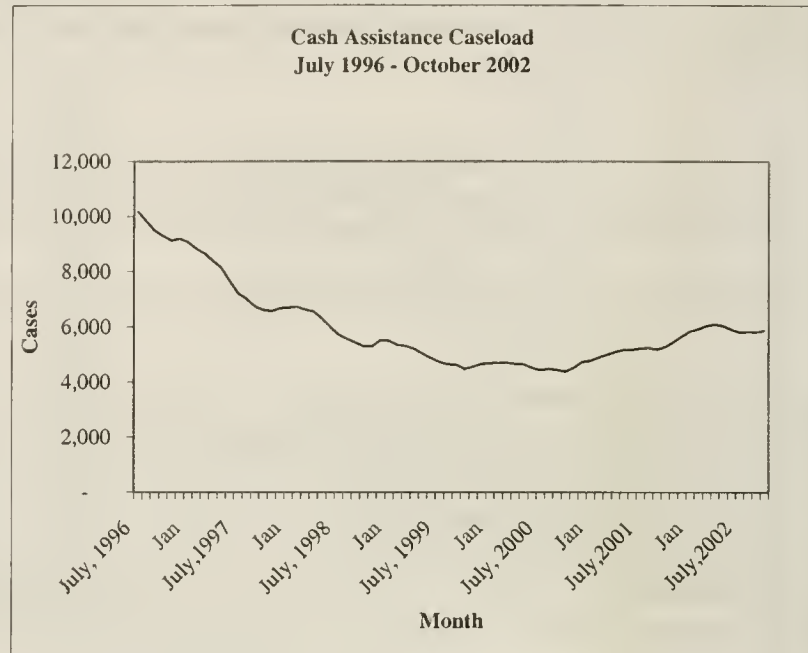
Figure 16 compares the appropriation for FAIM IIR as approved by the 2001 legislature to the funding remaining after the proportional reduction was implemented by OBPP. The bottom of Figure 16 also illustrates that while OBPP reduced the funding for FAIM IIR by \$17.5 million, cash assistance costs exceeded the appropriation approved by the legislature by \$5.9 million in fiscal 2002. If cash assistance costs in fiscal 2003 are the same as in fiscal 2002, cash assistance costs for the biennium will exceed the original appropriation for this purpose by \$11.8 million, leaving \$5.7 million of the funding removed from FAIM Phase IIR unexpended. This unexpended \$5.7 million is sufficient to fund an additional 19 percent increase in cash assistance costs.

While the appropriation of these funds was not specified as one-time-only in the general appropriations act, the legislature understood that these funds would be available only one time and that these new programs could not be supported in future biennia.

Cash Assistance

Since the 2001 legislative session, TANF cash assistance costs have increased from a low of \$21.8 million in fiscal 2000 to \$29.9 million in fiscal 2002. The executive budget increases cash assistance costs slightly more than 12 percent, to \$33.6 million per year in the 2005 biennium. Based upon current caseload data, if the number of cases increases one or two percent per month between October 2002 and March 2003, and decreases one or two percent between April 2002 and June 2003, an increase of about 7 percent for the year, estimated cash assistance costs would be about \$33 million. If a more substantial caseload increase such as the 18 percent increase that occurred between fiscal 2002 and 2001 is experienced in this or the next biennium, cash assistance costs will exceed the requested appropriation. The graph in Figure 17 provides a visual illustration of the changes in cash assistance caseload that have occurred since welfare reform was implemented.

Figure 17



TANF Spending Reductions

The increased demand for cash assistance, coupled with the usage of carryover funds, has resulted in a smaller amount of TANF funds being available for appropriation in the 2005 biennium compared to prior biennia. The proposed budget uses the federal TANF grant to support:

- Cash assistance benefits
- Operating and administrative costs
- A portion of the administrative costs for child welfare services
- A portion of foster care service costs

Figure 18 illustrates the flow of federal grant funds and expenditures for each year since inception of the TANF block grant. During the 2003 biennium the expenditures of TANF funds have exceeded the amount of the annual grant, as expected. The proposed budget for the 2005 biennium includes appropriations that are about \$10 million less than the annual grant award. To reduce expenditures to this level, the proposed budget removes TANF funding for:

- FAIM Phase IIR projects and selected other items such as adult basic education services, food banks and the prison cannery--\$5 million annually
- Transfer to the Childcare Development Fund to provide childcare services, \$7.6 million annually

Additionally, the department indicates that TANF transfers to the Social Services Block Grant (Title XX) to provide foster care services in the Child and Family Services Division (\$1.4 million annually) and services to the developmentally disabled in the Disability Services Division (\$1.4 million annually), will not be made in the 2005 biennium. However, the federal funds supporting these transfers remain in the proposed budget. The Legislative Fiscal Division raises this as an issue in the Child and Family Services and Disability Services Divisions and recommends that the legislature remove these federal funds from the budget.

Figure 18
Temporary Assistance of Needy Families (TANF)
Summary of Federal Funds

DESCRIPTION	SFY 97	SFY 98	SFY 99	SFY 00	SFY 01	SFY 02	SFY 03	SFY 04	SFY 05
Federal Grant	\$ 27,885,386	\$ 38,706,045	\$ 46,599,990	\$ 45,350,657	\$ 48,038,793	\$ 44,678,646	\$ 46,438,435	\$ 46,438,435	\$ 46,438,435
Expenditure of Federal Funds	\$ 14,730,474	\$ 29,897,481	\$ 24,925,376	\$ 28,434,468	\$ 36,464,512	\$ 45,658,304	\$ 43,549,591	\$ 36,565,082	\$ 36,567,670
Transfer to CCDF*	5,657,669	7,000,000	5,500,000	7,612,239	7,612,239	7,612,239	9,372,239	-	-
Transfer to Title XX*	774,065	2,850,000	-	4,250,000	4,250,000	4,250,000	3,860,602	-	-
Total Federal Expenditures/Transfers	\$ 21,162,208	\$ 39,747,481	\$ 30,425,376	\$ 40,296,707	\$ 48,326,751	\$ 57,520,543	\$ 56,782,432	\$ 36,565,082	\$ 36,567,670
Annual Carry-over Funds	\$ 6,723,178	\$ (1,041,436)	\$ 16,174,614	\$ 5,053,950	\$ (287,958)	\$ (12,841,897)	\$ (10,343,997)	\$ 9,873,353	\$ 9,870,765
Cumulative Carry-over Funds		5,681,742	21,856,356	26,910,306	26,622,348	13,780,451	3,436,454	13,309,807	23,180,572
<u>Maximum Amount That May be Transferred to:</u>									
Both Child Care and Title XX (30% of grant)	\$ 8,365,616	\$ 11,611,814	\$ 13,979,997	\$ 13,605,197	\$ 14,411,638	\$ 13,403,594	\$ 13,931,531	\$ 13,931,531	\$ 13,931,531
Title XX (10% or 4.25 percent of grant)*	2,788,539	3,870,605	4,659,999	4,535,066	4,803,879	4,467,865	4,643,844	1,973,633	1,973,633

*Notes:

The TANF Block Grant authorization by Congress expires September 30, 2002. This Table assumes that the TANF grant is reauthorized at the same level.

The transfer amount per state fiscal year may vary somewhat. However, this amount is transferred from the grant for this federal fiscal year.

Through federal fiscal 2002 states may transfer up to 10 percent of the grant to Title XX. The maximum transfer to Title XX is scheduled to decrease to 4.25 percent of the grant, if Congress does not take action to change this.

The transfer of TANF fund to Title XX is not included in this table, although the Executive Budget did not remove these transferred funds from the base budget.

**LFD
ISSUE**

Unexpended TANF Funds

As illustrated in Figure 18 it is estimated that \$23.2 million of unexpended TANF funds will remain available at the end of the 2005 biennium. The availability of TANF funds raises several policy decisions the legislature may wish to consider, including:

- What amount, if any, of TANF funds should be maintained in reserve? The 1999 legislature established a TANF reserve of \$8.35 million for the 2001 biennium. This level of reserve would provide cash assistance benefits for about 3 months at an expenditure level of \$2.6 million per month. Or, if expenditures rose \$0.5 million per month, this level of reserve would provide sufficient funding for the increased benefit costs for about 17 months.
- Does the legislature wish to appropriate all or a portion of this reserve to mitigate selected service and funding reductions (within allowable limits under federal TANF regulations)? For example, among the services TANF funds could be used to support are services such as childcare, foster care, and services for the developmentally disabled.
- Does the legislature wish to appropriate all or a portion of this reserve to replace general fund supporting services (within allowable limits under federal TANF regulations)? For example, a funding change could be included in the foster care or developmental disabilities program budget.
- Does the legislature wish to appropriate all or a portion of this reserve to continue selected programs that were included in FAIM IIR?
- If the legislature chooses to maintain some TANF funds in reserve, under what circumstances should these reserve funds be expended?
 - At the discretion of the executive?
 - If caseloads exceed projections?
- If caseloads decline and the reserve grows, should all or a portion of this funding be appropriated for a specific purpose?

TANF Maintenance of Effort (MOE)

In order to receive the federal TANF grant, states must continue to expend state and local resources at a level known as the "maintenance of effort" or "MOE". Montana's annual MOE is about \$14.8 million. Generally, states must maintain expenditures at a minimum of 80 percent of their historic level in order to receive the federal TANF grant. If states meet the federally mandated work participation rates, they may reduce the MOE to 75 percent of historic expenditures.

Because Montana has met the mandated work participation rates, the 2001 legislature reduced required MOE to 75 percent.

During fiscal 2003 the department implemented a number of spending reductions. Some of these reductions impacted the general fund available for TANF MOE. Notably, a \$973,117 reduction in Work Readiness Component (WoRC) contracts and supportive services (at the direction of the Governor in accordance with section 17-7-140, MCA) had a dollar for dollar impact on the funding available for TANF MOE. Other reductions, such as the across the board general fund reduction and reductions in travel and office supplies approved by legislature during the August 2002 Special Session, also had impacts on the funding available for TANF MOE. The department has requested almost \$1.2 million to assist them in meeting the TANF MOE requirements, which must be met on a federal fiscal year basis.

LFD ISSUE

TANF Maintenance of Effort (MOE)

Compliance with federal regulations regarding MOE is determined based upon spending during the federal fiscal year. Because Montana's state fiscal year overlaps two federal fiscal years, it is possible to manipulate funding for expenditures between state fiscal years and still comply with the federal requirements. The department can decrease expenditures during three quarters of the year (October 2002 to June 2003, which are in state fiscal 2003) and then increase expenditures in the July - September, 2003 quarter (state fiscal 2004) and comply with MOE requirements on a federal fiscal year basis.

Figure 19 illustrates an expenditure pattern scenario that allows the department to comply with the TANF MOE requirements on a federal fiscal year basis without additional funding above the level included in the base budget. If this expenditure pattern is implemented and maintained, compliance with MOE requirements can be met on a federal fiscal year basis for federal fiscal 2003 and future federal fiscal years. This manipulation of expenditures results in a one-time reduction in general fund expenditures in fiscal 2003 while maintaining compliance with MOE requirements on a federal fiscal year basis.

Figure 19
Temporary Assistance For Needy Families (TANF) Maintenance of Effort (MOE)
Spending Scenario

Quarter	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
July - September	\$ 2,640,767	\$ 2,624,654	\$ 3,778,536	\$ 3,778,536	\$ 3,778,536
October - December	3,314,224	3,684,927 *	3,684,927	3,684,927	
January - March	3,747,841	3,684,927 *	3,684,927	3,684,927	
April - June	5,146,599	3,684,927 *	3,684,927	3,684,927	
Total	\$ 14,849,431	\$13,679,436	\$14,833,318	\$14,833,318	\$ 3,778,536
Per Federal Fiscal Year					
Federal Fiscal 2002 MOE					
Federal Fiscal 2002 Total	\$ 14,833,318				
Federal Fiscal 2003 Total		\$14,833,318			
Federal Fiscal 2004 Total			\$14,833,318		
Federal Fiscal 2005 Total				\$14,833,318	

* Reduced by one third of \$1,153,882 spending reduction implemented in fiscal 2003.

Options:

- Direct the department to implement an expenditure pattern such as the one illustrated in Figure 19, which manipulates expenditures between state fiscal years so that MOE is met on a federal fiscal year basis; and not approve the decision package requesting additional funding for TANF MOE
- Take no action (positive action is necessary to add to the base budget, if no action is taken the decision package is not added to the base budget)

**LFD
ISSUE**Other potential sources of TANF MOE

In addition to funding appropriated by the legislature for TANF MOE, the department has utilized donated funds (\$276,963) expended on eligible families toward the TANF MOE. Specifically, the department has utilized the portion of the weatherization funds donated and used for TANF eligible families toward the TANF MOE. It is possible that there are existing programs funded with general fund or state special revenue where:

- The general fund or state special revenue is not used to match federal funds, and
- The services provided are to low-income families and fulfill a TANF purpose

If programs matching these criteria are identified, the legislature may be able to count the general fund or state special revenue supporting these programs as TANF MOE and reduce the general fund appropriated to DPHHS for TANF MOE.

Options:

- Direct the executive to review all executive branch agency budgets and compile a list of all existing programs that meet the criteria outlined above
- Direct legislative staff to continue efforts to identify existing programs meeting the criteria above and to investigate the feasibility and level of existing program expenditures that might count toward TANF MOE

**LFD
ISSUE**MOE included in AMDD

The previous legislature included funding of \$647,000 general fund for a basic mental health services program for children in the Addictive and Mental Disorders Division (AMDD) budget. This general fund was a portion of the general fund supporting the TANF MOE. The analysis of TANF MOE included here assumes: 1) this program continues, 2) the program continues to be structured in a manner that makes it eligible to count as TANF MOE, and 3) the program funding continues at the level authorized by the previous legislature. If this is not the case, the department will not have adequate funding to meet TANF MOE requirements.

Options:

- Require that AMDD continue this program at the level funded by the previous legislature (\$647,000 annually) and structured so that the expenditures count as TANF MOE
- Move \$647,000 general fund per year from the AMDD budget to the HCSD budget for TANF MOE, if the basic mental health program for children is not proposed to be maintained in a manner that qualifies those expenditures as TANF MOE expenditures
- Provide the HCSD an additionally general fund appropriation of \$647,000 annually for TANF MOE, if the basic mental health program for children is not proposed to be maintained in a manner that qualifies those expenditures as TANF MOE expenditures

*Childcare*Background

The Childcare Development Fund (CCDF) was created under a portion of the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA or welfare reform) to provide childcare services to low-income parents and parents receiving TANF to enable them to work or participate in educational and training programs. PRWORA repealed old welfare related childcare programs that existed under the Social Security Act and replaced them with mandatory and matching funds. Funds that states previously received under the Childcare Development Block Grant became known as the discretionary fund portion of CCDF.

The mandatory funds are a stream of federal funds that states receive if they fulfill the maintenance of effort (MOE), (that is, if they continue to expend state funds for childcare services at the historical level based upon a time period specified in federal regulations). For Montana, this CCDF MOE is \$1.3 million annually.

Matching funds are funds that are available to states based upon the federal medical assistance participation rate (FMAP). In Montana this matching ratio is about 28 percent general fund and 72 percent federal funds (often the Medicaid matching ratio for Montana is referred to as a 30/70 matching rate).

Discretionary funds are 100 percent federal funds that are allocated to states based upon a formula. Also, if a state transfers funds from its TANF grant to the CCDF, the TANF funds become discretionary funds. As shown in Figure 20, the discretionary fund declines from \$16.8 million in fiscal 2002 to \$10.2 million for each year of the 2005 biennium. The two items comprising this change are: 1) a projected increase in Montana's discretionary fund allocation, and 2) the lack of a transfer of TANF funds to CCDF. Because TANF caseloads have increased and the amount of TANF funds available in the 2005 biennium are less than those available in previous biennia, no transfer of TANF fund to CCDF is included in the proposed budget.

Childcare Services in Montana

The Childcare Development Fund (CCDF) and its three streams of federal funds provide almost \$40 million during the 2005 biennium for childcare services (Figure 20). Federal childcare funds comprise more than 10 percent of the division's funding and over 91 percent of the funding available for childcare services. In addition to this funding, childcare has general fund support of \$1.3 million that fulfills the state's CCDF MOE. The balance of the general fund supporting childcare (about \$1.5 million for the 2005 biennium) is used as match to draw federal childcare matching funds.

Figure 20 Childcare Funding				
Funding Source	Actual 2002	Requested 2004	Requested 2005	Percent of Total
General Fund	\$ 2,528,756	\$ 2,251,862	\$ 1,851,862	9.3%
Percent of Total	9.6%	10.1%	8.5%	
Federal Funds:				
Discretionary Child Care	16,796,919	10,180,461	10,180,473	46.2%
Child Care Mandatory/MOE	2,090,175	3,086,400	3,086,400	14.0%
Child Care Admin	403,736	526,048	530,295	2.4%
Child Care Matching	4,406,365	6,196,101	6,196,101	28.1%
Subtotal Federal Funds	23,697,195	19,989,010	19,993,269	
Percent of Total	90.4%	89.9%	91.5%	
Total All Funds	\$ 26,225,951	\$ 22,240,872	\$ 21,845,131	
Percent Change		-15.2%		

The majority of childcare funds are expended to provide subsidies to low-income families. No more than five percent of the grant may be expended for administrative costs, and four percent must be expended for quality, health and safety activities. Montana currently provides services to families at or below 150 percent of the federal poverty level and employs a sliding fee scale, as required by federal law, to determine the parent's share of the costs. As the family income approaches 150 percent of the federal poverty level, their share of the costs increases. Once the family income exceeds 150 percent of the federal poverty level, the family is ineligible for the program.

Currently, the administrative rules in Montana guarantee childcare subsidies to families receiving cash assistance and families with disabled children, if the parents are working and their income is below 150 percent of the federal poverty level. According to federal regulations, if appropriate childcare is not provided to TANF cash assistance families, the family is not required to participate in activities designed to help them achieve self-sufficiency.

All other families are prioritized by income level with the lowest income families having the highest priority. Single parent families not on cash assistance must be working at least 60 hours per month (except certain teen parents) and two parent families must work at least 120 hours per month to qualify for childcare assistance. Full time students must work at least 40 hours per month if a single parent and 80 hours per month if the family is a two-parent family.

As illustrated in Figure 21, the demand for childcare services has grown rapidly since the implementation of welfare reform and increased federal childcare funding became available. Between 1997 and 2000, childcare expenditure grew while TANF cash assistance expenditures declined. Between 2002 and 2003, childcare expenditures continued to grow and TANF cash assistance expenditures also grew. Childcare expenditures are projected to decline between 2003 and 2005, which is reflective of the decrease in funding available for these services and not a decrease in demand for childcare services. While one might think that the increase in the TANF cash assistance caseload would decrease the demand for childcare, department staff stated that this is not the case due to federal TANF requirements that the family is not required to participate in activities to assist them in becoming self-sufficient if childcare is not available.

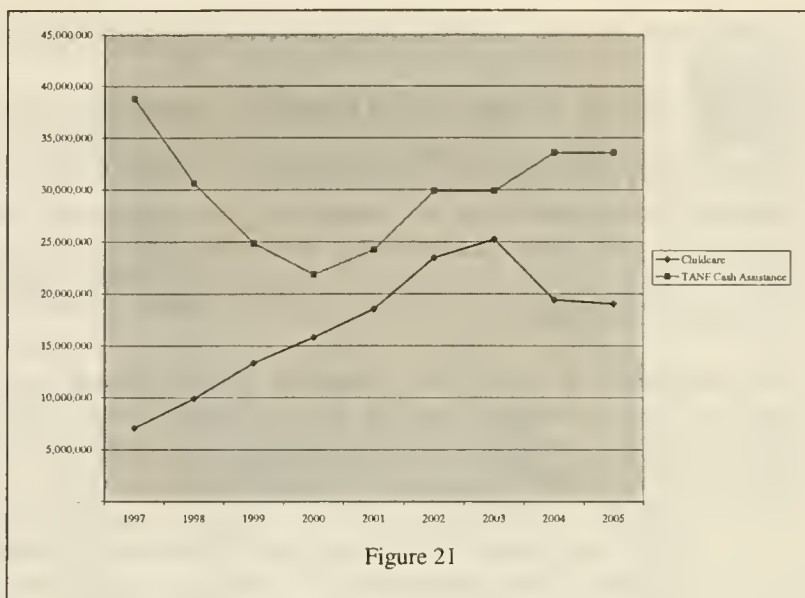


Figure 21

Current state reimbursement rates, (from \$11.25 per day to \$28.50 per day), which are established based upon local market surveys, vary by type of provider, location of the provider, and age of the child. This equates to monthly costs between \$180 and \$456 per child for a family working 4 days per week or 16 days per month. At a rate of \$16 per day, a family working full-time, 5 days per week, 20 days per month would incur childcare costs of \$320 per month for one child. If employed at a job paying \$7 per hour, this family's gross monthly income would be \$1120. Thus, childcare costs for one child would equate to 29 percent of the family's gross monthly income in this situation.

LFD ISSUE

Childcare program changes

Given that the demand for childcare will continue and that the executive budget decreases funding for childcare, the legislature may wish to:

- Have the department review the program changes that have or will be implemented in order to maintain childcare expenditures within the funding included in the Executive Budget.

Options:

- Specify their concurrence or dissent with the department's planned program changes
- Specify program changes the department should implement
- Review the status of TANF funding and consider the feasibility of transferring TANF funds to childcare (please refer to the earlier discussion of TANF)

CCUBS

During the 2003 biennium the department developed and implemented the Childcare Under the Big Sky (CCUBS) system. This system was developed to replace and add functionality to the Montana Automated Childcare System (MACCS) and the Child and Adult Protective Services (CAPS) system. Prior to the development and implementation of CCUBS, MACCS performed financial and management functions for the childcare subsidy program, and CAPS acted as a childcare provider licensing system.

In addition to functions formerly provided by other systems, CCUBS incorporates new functions including contract management, fair hearing tracking, and web-based invoice entry and payment inquiry for childcare providers. Completion of additional functionality is underway. The department indicates the core system for CCUBS was provided to the state by a contractor at no cost, and that the Montana specific portion of the system costs \$1,775,000. Federal childcare discretionary funds were used to fund the CCUBS system.

**LFD
ISSUE**Review and approval of information technology funded within existing appropriations

The budgeting process does not specifically provide for the review of information technology projects that are funded within the base budget. However, as illustrated by the development of CCUBS, significant information technology developments can be funded within the base funding of the department. In this case, the significance of the decision to invest almost \$1.8 million in information technology is amplified because the childcare discretionary funding that was used for this project could have been used to provide childcare subsidies to families, and it appears the proposal to develop CCUBS did not receive legislative review.

The development of information technology within existing appropriations is also discussed in the narrative for the Operations and Technology Division (OTD). As discussed in the OTD narrative, because additional funding was not requested for this project, the decision whether or not to development a replacement system did not receive legislative scrutiny during the 2001 biennium. The legislature may wish to:

- o Amend section 2-17-526, MCA (information technology project budget summary) to specify that information technology projects (including system replacements) funded within existing appropriations, and estimated to cost over a specified threshold, be subject to the statutory provisions of this section, including inclusion in the information technology project budget summary
- o Take no action

Other Federal Grants

The division requests \$20.1 million for increases in several federally funded programs including: 1) childcare mandatory and discretionary programs; 2) the child and adult food care program; 3) several housing, home energy, commodity and weatherization programs; 4) and a grant to provide housing assistance to people with AIDS. Matching fund for these grants are either not required or will be obtained from sources other than the general fund.

Food Stamps

The food stamp program is a federal program administered by the United States Department of Agriculture (USDA). The program provides low-income households funds for the purchase of foods. The federal government reimburses states for 50 percent of the administrative costs of the program and 100 percent of the benefit costs of the program. The USDA mandated that food stamp benefits be distributed by states electronically. The deadline for implementation of electronic transfer of benefits was October 2002.

The department developed a system known as Montana Access for this purpose and phased-in implementation during fiscal 2002. This system uses a magnetic card similar to a credit card for the distribution of benefits. Program participants may use this card at the grocery store and other retail locations. The availability and value of benefits is verified and if benefits are available the transaction is processed through a point of sale device. The department has also made TANF cash assistance payments available via the Montana Access card and has future plans to add additional benefit distributions, including child support payments, to the card.

Prior the distribution of food stamp benefits through electronic means, the department contracted with a company that distributed food stamp coupons to eligible households. The coupons were provided to the contractor by the federal government. Thus, the financial transaction for the issuance of food stamp benefits did not impact the state treasury. Because the state treasury was not impacted, Montana statutes did not require that these benefits be appropriated. However, the implementation of electronic benefit transfer has changed the manner in which these transactions are processed. The expenditure is now processed through the state treasury and the state obtains reimbursement for the benefits issued from the federal government. Because the financial transactions are now processed through the state treasury, an appropriation for the expenditure must be made. During fiscal 2002, the phase-in period for electronic benefit transfer, the department expended approximately \$10 million for food stamp benefits. The department is

requesting an additional \$55.7 million per year to increase funding for food stamp benefit costs to the level projected for the 2005 biennium.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Human And Community Services Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 21,737,319	17.1%	\$ 23,144,840	12.4%	\$ 21,399,664	11.6%
02375 6901-02 Indrct Activity Prog 02	728	0.0%	75	0.0%	75	0.0%
02931 Food Stamps Recoupment Acct	165,000	0.1%	165,000	0.1%	165,000	0.1%
02974 Univ Low-Income Energy Assist	245,318	0.2%	345,176	0.2%	345,176	0.2%
03066 81.042 Bpa	283,734	0.2%	284,026	0.2%	283,995	0.2%
03096 Discretionary Child Care	16,796,919	13.2%	10,180,461	5.5%	10,180,473	5.5%
03103 Tanf Administration	179,742	0.1%	442,301	0.2%	443,965	0.2%
03109 Tanf Benefits	34,826,009	27.4%	33,472,781	18.0%	33,473,705	18.2%
03236 Child Nutrition	9,109,798	7.2%	10,446,430	5.6%	11,004,809	6.0%
03250 Child Care Manditory/Moe	2,090,175	1.6%	3,086,400	1.7%	3,086,400	1.7%
03251 Child Care Admin	403,736	0.3%	526,048	0.3%	530,295	0.3%
03252 Child Care Matching	4,406,365	3.5%	6,196,101	3.3%	6,196,101	3.4%
03382 Pgm 2 Indirects	9,237,697	7.3%	9,539,492	5.1%	9,344,944	5.1%
03390 Reach	397,414	0.3%	-	-	1	0.0%
03518 93.044 - Aging Sup S & Train 1	37,617	0.0%	42,314	0.0%	42,265	0.0%
03523 93.566 - Refugee Soc. Serv	77,331	0.1%	62,717	0.0%	62,717	0.0%
03539 93.600 Headstart	129,681	0.1%	129,681	0.1%	129,681	0.1%
03544 10.561 - Fs E & T - 50%	224,982	0.2%	224,982	0.1%	224,982	0.1%
03545 10.561 - Fs E & T - 100%	573,919	0.5%	364,589	0.2%	364,589	0.2%
03546 10.561 - Fs Adm - Fed Exp 50%	757,229	0.6%	1,155,812	0.6%	1,156,581	0.6%
03547 10.568 - Emerg Food Assist 100	157,534	0.1%	200,508	0.1%	200,377	0.1%
03548 10.569 - Food Distr - Fed Exp	1,520,064	1.2%	1,574,391	0.8%	1,572,365	0.9%
03550 14.231 - Emerg Shelter - Hud 5	365,018	0.3%	364,946	0.2%	364,937	0.2%
03552 81.042 - Weather Ben 100%	1,846,526	1.5%	2,592,454	1.4%	2,591,801	1.4%
03571 93.566 - Off Ref Reset Adm 10	33,750	0.0%	118,081	0.1%	118,081	0.1%
03572 93.568 - Leap Blk Grt Adm	8,007,700	6.3%	11,524,179	6.2%	11,522,739	6.3%
03573 93.569 - Csbg Adm	2,881,815	2.3%	2,886,449	1.6%	2,886,360	1.6%
03579 93.667 - Ssbj - Benefits	46,000	0.0%	46,000	0.0%	46,000	0.0%
03580 93.778 - Med Adm 50%	106,386	0.1%	50,000	0.0%	50,000	0.0%
03669 Doe Region 8	-	-	228,905	0.1%	-	-
03677 6901-Cacfp 10.558 & 10.560	381,113	0.3%	494,845	0.3%	491,314	0.3%
03678 6901-Food Stamp Benefits	9,821,755	7.7%	65,000,446	34.9%	65,005,841	35.4%
03679 6901-Hopwa Cfda#14-241	-	0.0%	738,909	0.4%	-	0.0%
03824 Child Care Apprenticeship Prog	-	0.0%	-	0.0%	-	0.0%
03955 Elderly Refugee Grant	35,558	0.0%	55,000	0.0%	55,000	0.0%
03965 Csfj	311,221	0.2%	448,549	0.2%	448,105	0.2%
Grand Total	\$ 127,195,153	100.0%	\$ 186,132,888	100.0%	\$ 183,788,338	100.0%

The HCSD is funded by a combination of general fund, state special revenue, and federal funds. General fund provides 11.6 percent of the division funding and supports:

- Maintenance of effort (MOE) for the Temporary Assistance for Needy Families (TANF) and Childcare Development Fund (CCDF) block grants
- Matching funds for federal program functions including food stamp and Medicaid eligibility determination

Prior to the 2001 legislative session, a portion of the division's funding came from county reimbursement for welfare related costs. HB 124 passed by the 2001 legislature, changed the funding of public assistance costs. Rather than counties reimbursing the state for a portion of these costs, they are now funded entirely from the general fund.

Federal funds comprise 88 percent of the division budget. The two largest funding sources, food stamps and TANF, provide more than 50 percent of the division's funding. Funding from various federal childcare grants provides 11 percent of the division's funding. As illustrated in the table above, the level of funding for the food stamp program included in the budget request is more than six times the costs that are included in the base budget. As discussed earlier, this dramatic increase is the result of a change in how food stamp benefits are distributed.

Biennial Comparison

2005 biennium general fund support for the division increases about 1 percent above the 2003 biennium level (Figure 22). Federal funding increases 24 percent and total funding for the division increases 21 percent between the two biennia. Federal funding increases due to a change in the budgeting methodology for food stamp benefits and increases in other federal grants.

Executive Proposed Legislation

LC0437 proposes changes to section 53-4-210, MCA regarding the provision of state TANF MOE funds to tribes operating a Tribal Family Assistance Plan. The department seeks to change the statute to require this transfer only if an appropriation for this specific purpose is provided by the legislature.

Figure 22
2003 Biennium Compared to 2005 Biennium
Human & Community Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	452.20	451.20	(1.00)	
Personal Services	\$ 35,482,047	\$ 35,822,510	\$ 340,463	0.5%
Operating	24,499,155	10,958,169	(13,540,986)	-21.1%
Equipment	167,684	56,970	(110,714)	-0.2%
Capital Outlay	6,356	-	(6,356)	0.0%
Grants	31,537,933	32,585,174	1,047,241	1.6%
Benefits/Claims	213,915,652	290,311,545	76,395,893	119.1%
Transfers	29,221	-	(29,221)	0.0%
Debt Service	115,185	186,858	71,673	0.1%
Total Costs	\$ 305,753,233	\$ 369,921,226	\$64,167,993	100.0%
General Fund	\$ 43,944,546	\$ 44,544,504	\$ 599,958	0.9%
State Special	837,197	1,020,502	183,305	0.3%
Federal Funds	260,971,490	324,356,220	63,384,730	98.8%
Total Funds	\$ 305,753,233	\$ 369,921,226	\$64,167,993	100.0%
Percent Increase			21.0%	

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				1,660,200						1,669,514
Vacancy Savings				(754,242)						(754,606)
Inflation/Deflation				55,083						70,415
Fixed Costs				1,850						(808)
Total Statewide Present Law Adjustments				\$962,891						\$984,515
DP 2 - ECSB Admin and Subsidy Caseload Adjustment	0.00	(276,931)	0	3,862,890	3,585,959	0.00	(676,931)	0	3,865,161	3,188,230
DP 3 - Elimination of TANF FAIM Phase IIR	0.00	0	0	(4,977,143)	(4,977,143)	0.00	0	0	(4,977,143)	(4,977,143)
DP 4 - CACFP Present Law Adjustment	0.00	0	0	1,348,230	1,348,230	0.00	0	0	1,901,500	1,901,500
DP 6 - IHSB Present Law Adjustment	1.00	0	100,000	4,088,173	4,188,173	1.00	0	100,000	4,088,090	4,188,090
DP 8 - TANF Cash Benefits	0.00	0	0	3,666,648	3,666,648	0.00	0	0	3,666,648	3,666,648
DP 10 - Food Stamp Benefits and EBT	0.00	25,864	0	55,727,444	55,753,308	0.00	25,864	0	55,727,444	55,753,308
DP 11 - Refugee Resettlement	0.00	0	0	111,442	111,442	0.00	0	0	111,442	111,442
DP 12 - Food Stamp Program (FSNEP)	0.00	0	0	189,836	189,836	0.00	0	0	189,836	189,836
DP 13 - TANF MOE For FFY 2003	0.00	1,153,882	0	0	1,153,882	0.00	0	0	0	0
DP 14 - Reduction in Child Care Base Budget	0.00	0	0	(7,612,239)	(7,612,239)	0.00	0	0	(7,612,239)	(7,612,239)
DP 15 - County OPA Base Budget Reduction	0.00	(188,103)	0	(188,103)	(376,206)	0.00	(388,103)	0	(388,103)	(776,206)
Total Other Present Law Adjustments	1.00	\$714,712	\$100,000	\$56,217,178	\$57,031,890	1.00	(\$1,039,170)	\$100,000	\$56,572,636	\$55,633,466
Grand Total All Present Law Adjustments				\$57,994,781						\$56,617,981

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - ECSB Admin and Subsidy Caseload Adjustment - This request includes a reduction of \$953,862 general fund and an increase of \$7,728,051 federal funds for childcare services. The federal funds in this request will be used to: 1) replace expenditures such as overtime that are removed from the base; 2) annualize travel funds; 3) adjust the general fund match for the federal match grant due to FMAP changes; and 4) support anticipated increases in the federal mandatory and discretionary childcare grants. It is anticipated that both the discretionary and mandatory grants will be increased by about \$1,000,000 each for each year of the biennium. This also includes an increase in federal childcare matching funds between fiscal 2002 and 2003 of \$1,792,009. General fund matching dollars are decreased in this request. Alternative sources for matching funds to draw down the federal portion of the childcare matching grant are being researched by the department.

LFD COMMENT

Please refer to the program narrative for a discussion of childcare.

DP 3 - Elimination of TANF FAIM Phase IIR - The department requests a reduction in federal funds of \$9,954,286 for the biennium including a reduction in FAIM Phase IIR programs and selected other TANF funded programs such as: operations at the prison cannery, TANF Evaluation, and adult basic education services. The 2001 legislature funded a

number of new or expanded programs from federal TANF funds that had not been expended but were available as a carryover or reserve funding. This funding, although not designated as such in HB 2, was intended to be a one-time only appropriation of available reserve funds. This decision package removes this funding from the base budget. The elimination of TANF funding for the Food Banks, cannery, and Adult Basic Education are due to TANF block grant constraints. The TANF evaluation project is complete and no longer needs funding.

**LFD
ISSUE**

Please see the program narrative for a discussion of TANF funds.

DP 4 - CACFP Present Law Adjustment - The executive requests \$3,249,730 federal funds for the biennium for the Child and Adult Care Food Program (CACFP). This increase will be used for overtime, compensatory time payouts, to annualize out of state travel, and for benefits. This increased funding is estimated to provide an additional 1,968,625 meals during the 2005 biennium. The executive anticipates this level of growth in the program based upon historical increases and projected participation of for-profit childcare centers in the program approved recently by the United States Department of Agriculture (USDA). For-profit childcare centers are eligible for the program if at least 25 percent of the children enrolled at the center are eligible for free and reduced price meals.

DP 6 - IHSB Present Law Adjustment - This decision package requests \$200,000 state special revenue and \$8,176,263 federal funds for the Universal Systems Benefits Charge (USBC) state special revenue and the following federal grants: 1) U.S. Department of Energy (DOE) weatherization grant; 2) U.S. Department of Agriculture (USDA) Emergency Food Assistance Program (TEFAP) grant; 3) USDA Commodity Supplemental Food Program (CSFP); and 4) U. S. Department of Health and Human Services Low Income Energy Assistance Program (LIEAP). A decrease in federal funds for the Residential Energy Assistance Challenge (REACH) grant, which will be discontinued, is also included in this request. In addition to benefits, a portion of the funds in this request will be used to support increasing existing part time employees to full time, overtime for truck drivers, temporary services, and out of state travel for the administration of these grants.

DP 8 - TANF Cash Benefits - The department requests an increase of \$7,333,296 federal funds for cash assistance benefit costs. The TANF caseload has increased from just fewer than 4,500 cases to over 6,000 cases in a period of 15 months. TANF cash benefit expenditures have grown from a monthly low of about \$1.75 million in October of 2000 to over \$2.6 million in July 2002. During the recent recession, caseloads have increased but growth cannot be pinpointed to any one reason or region. Caseloads appear to be increasing faster in the higher populated areas of the state and there is significant recidivism caused by job loss, pregnancy, medical crisis, or a personal crisis. Common causes for requesting assistance include reduced income (lay-off, reduced hours, quit, fired), increases in basic needs, cost such as housing or reliable transportation; medical emergencies and pregnancy; a change in family stability due to separation, divorce, or domestic violence; or moving away from extended family.

**LFD
COMMENT**

Please see the program narrative for additional information on TANF and cash assistance.

DP 10 - Food Stamp Benefits and EBT - The executive requests \$51,728 general fund and \$111,454,888 federal funds to annualize the costs of food stamp benefits and TANF cash assistance electronic benefit transfer (EBT). The funding requested in this decision package was reduced by \$352,000 general fund for the biennium to reflect reductions in the Food Stamp Employment and Training program that were implemented in fiscal 2003. The Food Stamp Employment and Training program was reduced from five sites to three sites.

EBT was implemented as a pilot program in fiscal 2002 and allows food stamp and TANF clients to use an ATM type of a card to pay for purchases and/or to get their TANF cash benefit. Food stamp EBT was mandated by the United States Department of Agriculture (USDA) to be implemented by October 2002. Montana maintained a food stamp issuance contract throughout most of fiscal 2002 while EBT was phased-in. With the new EBT system there is no longer a need to maintain this contract or mail food stamps to qualified clients. The funding supporting the food stamp issuance contract and the mailing costs in 2002 was \$509,416. It is estimated that the operational costs for maintaining the EBT system will be \$1,250,884 annually. The department intends to use the funding included in the 2002 base budget for the issuance contract and mailing costs to help fund the food stamp portion of operating costs for the EBT system.

Additionally, the department projects food stamp benefit costs will increase due to changes in federal law. The department estimates that: 1) the selection of the federal option of a six-month reporting requirement will increase benefit costs \$2,880,000 per year; 2) a federal policy regarding offering transitional assistance will increase benefit costs \$1,348,200 per year; and 3) a change in the federal requirement regarding services to aliens will increase benefit costs by \$960,000 per year.

**LFD
COMMENT**

Please refer to the program narrative for additional information on the Food Stamp Program.

DP 11 - Refugee Resettlement - The department requests \$222,884 federal funds for the biennium to fund three different refugee resettlement grants. The grants are: 1) Cash/Medical/Administration (CMA) Grant; 2) the Refugee Social Services Grant; and 3) the Elderly Refugee grant.

The Cash/Medical/Administration (CMA) Grant provides funding for all administrative costs of the Refugee Resettlement Program, including salary and indirect expenditures. It also allows the state to provide medical interpretation services as necessary in a particular locale.

The Refugee Social Services Grant provides funding for direct services to provide individual support to assist refugees and their families resettling in Montana, and assist them in attaining an employment readiness position and then employment as quickly as possible.

The Elderly Refugee grant provides coordinated joint services to assist elderly refugees in becoming self-reliant. The elderly grant provides the resources for a contractor who provides culturally and linguistically appropriate services to the elderly refugees.

DP 12 - Food Stamp Program (FSNEP) - The executive requests \$379,672 federal funds for the biennium to annualize the Food Stamp Nutrition Education Program (FSNEP) grant and expand the program to two additional counties. The goal of the FSNEP is to teach families how to wisely use and stretch their food stamp benefits in the most cost effective and nutritious way. FSNEP is an optional federal program operating in 31 Montana counties. The various counties receiving services provide the matching funds for this program. The addition of the two counties will increase the current total of food stamp recipients served by FSNEP from 35,105 to 46,601 in the first year of the biennium.

DP 13 - TANF MOE For FFY 2003 - The department is requesting \$1,153,882 general fund in a one-time-only appropriation to provide funding for the TANF maintenance of effort (MOE) for federal fiscal 2003. During the summer of 2002 the Governor directed executive agencies to implement spending reductions in fiscal 2003 based upon the statutory requirements of Section 17-7-140, MCA. Some of these reductions impacted the department's spending of general fund that supports that TANF maintenance of effort. The department believes it needs this additional general fund appropriation to expend in the first quarter of fiscal 2004 in order to meet federal requirements for MOE expenditures in federal fiscal 2003. The spending reductions ordered by the Governor affected the funding for supportive services benefits. Additionally, across the board funding reductions approved by the legislature during the August 2002 Special Session impacted funding for supplies and equipment, and resulted in increased vacancy savings.

**LFD
ISSUE**

The requested increase in funding may not be necessary. Please refer to the TANF discussion in the agency narrative for additional information regarding this decision package.

DP 14 - Reduction in Child Care Base Budget - This decision package decreases federal funds available for childcare services by \$15,224,478 for the biennium. The 2001 legislature appropriated a portion of the TANF block grant to be transferred to the Child Care Development Fund (CCDF) to be spent on childcare. Because of increases in the cash assistance caseload and because Montana no longer has a reserve of federal TANF funds, TANF funds are no longer available for transfer to the CCDF. This decision package reduces the base budget by the amount of expenditures in the base year, or \$7,612,239 federal funds, annually.

**LFD
COMMENT**

Please refer to the program narrative discussions of TANF and childcare services.

DP 15 - County OPA Base Budget Reduction - This request reduces funding for county Offices of Public Assistance (OPA) by \$576,206 general fund and \$1,152,412 total funds. Personnel assigned to an OPA provide eligibility determination, case management, resource coordination and implementation of services for the: 1) Temporary Assistance for Needy Families (TANF) block grant; 2) food stamps; and 3) Medicaid. The department indicates that to achieve this savings a reduction in force of 12 -18 staff, decreasing 4 positions from full time to half time, and reducing the compensation of 6 staff will be necessary. Three county offices and one training center will be closed. Additionally, the department indicated that \$114,051 of the general fund reduction in this decision package was counted as Temporary Assistance for Needy Families (TANF) maintenance of effort.

New Proposals		-----Fiscal 2004-----					-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
DP 7 - DOE Weatherization Training Grant											
02	0.00	0	0	228,905	228,905	0.00	0	0	0	0	0
DP 9 - Housing Opportunities for Persons With AIDS-HOPWA											
02	0.00	0	0	738,909	738,909	0.00	0	0	0	0	0
DP 280 - FTE Reduction											
02	(1.00)	(12,430)	0	(12,430)	(24,860)	(1.00)	(12,398)	0	(12,398)	(24,796)	(24,796)
Total	(1.00)	(\$12,430)	\$0	\$955,384	\$942,954	(1.00)	(\$12,398)	\$0	(\$12,398)	(\$24,796)	(\$24,796)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 7 - DOE Weatherization Training Grant - The department requests \$228,905 federal funds in a biennial federal appropriation for the Department of Energy (DOE) Weatherization Training grant. The DOE Weatherization Training grant is a five-year award that ends September 30, 2005. The department contracts with Montana State University Extension Service Housing Program (MSUES) to develop and improve professional standards and practices involved in the administration of the weatherization assistance program. This is accomplished by MSUES providing training and technical assistance to weatherization managers within the Denver DOE region.

DP 9 - Housing Opportunities for Persons With AIDS-HOPWA - The department requests \$738,909 federal funds in a biennial appropriation for the Housing Opportunities for Persons with AIDS (HOPWA) Grant received from the U.S. Department of Housing and Urban Development (HUD). The department contracts with the Montana State University Extension Service Housing Program for data collection and program assessment. The department also contracts with

two agencies in Montana, one agency in South Dakota, and one agency in North Dakota to provide rental assistance, supportive services, and emergency assistance to persons living with AIDS in these states.

DP 280 - FTE Reduction - This decision package removes \$24,828 general fund and \$49,656 total funds supporting a 1.00 FTE position that is vacant.

Executive Language Recommendations

"The department may reduce the monthly TANF cash benefit payments to recipients for the following purpose(s): 1) to maintain the solvency of the grant; and /or 2) as an attempt to meet departmental goals and performance indicators. In either case, the department will certify to the Office of Budget and Program Planning that the benefit reduction is required. Additionally, the department must conduct this cash benefit reduction in accordance with established administrative rules."

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	329.75	14.50	(6.30)	337.95	17.00	(6.30)	340.45	340.45
Personal Services	12,955,382	1,194,464	(227,879)	13,921,967	1,301,486	(227,283)	14,029,585	27,951,552
Operating Expenses	3,471,220	404,482	0	3,875,702	485,246	0	3,956,466	7,832,168
Equipment	22,955	0	0	22,955	0	0	22,955	45,910
Capital Outlay	28,398	0	0	28,398	0	0	28,398	56,796
Grants	3,712,927	0	(327,641)	3,385,286	0	(327,641)	3,385,286	6,770,572
Benefits & Claims	24,962,507	1,607,003	2,274,442	28,843,952	3,119,664	2,168,158	30,250,329	59,094,281
Transfers	0	0	0	0	0	0	0	0
Debt Service	12,649	0	0	12,649	0	0	12,649	25,298
Total Costs	\$45,166,038	\$3,205,949	\$1,718,922	\$50,090,909	\$4,906,396	\$1,613,234	\$51,685,668	\$101,776,577
General Fund	21,330,764	762,440	(2,331,212)	19,761,992	1,036,551	(2,383,238)	19,984,077	39,746,069
State/Other Special	1,474,092	196,200	(2,742)	1,667,550	523,200	(2,742)	1,994,550	3,662,100
Federal Special	22,361,182	2,247,309	4,052,876	28,661,367	3,346,645	3,999,214	29,707,041	58,368,408
Total Funds	\$45,166,038	\$3,205,949	\$1,718,922	\$50,090,909	\$4,906,396	\$1,613,234	\$51,685,668	\$101,776,577

Program Description

The Child and Family Services Division (CFSD) administer child protective services, child abuse and neglect services, prevention services, domestic violence grants, and other programs designed to keep children safe and families strong. CFSD structure includes five regional offices that are responsible for program administration in their geographic area. These regional offices are advised by Local Family Services Advisory Councils, which serve as the link between local communities and the department. CFSD is the primary user of the Child and Adult Protective Services (CAPS) computer system.

Statutory authority for the program is provided in Titles 41, 42, and 52, MCA, and 45 CFR, Parts 1355, 1356, 1357 and 1370.

Program Narrative

Child and Family Services Division Major Budget Highlights	
○ 2005 biennium general fund support for the division decreases almost 8 percent compared to the 2003 biennium while total funds increase over 9 percent compared to the 2003 biennium ○ New proposals include elimination or reductions in funding for Big Brothers Big Sisters, Child Protective Services daycare, in-home and family reunification services, domestic violence services, and staff ○ Subsidized adoption caseload is projected to increase about 8 percent per year, foster care costs are projected to increase about 10 percent the first year of the biennium ○ Reduction in child protective services daycare reduces availability of federal childcare funds ○ Division requests FTE to increase recovery of funds from non-general fund sources	

Major LFD Issues
○ Foster care projection includes \$1.4 million per year of federal funds that will not be available ○ Foster care caseload estimate may be overstated ○ Subsidized adoption caseload increase appears inadequate given historical rate of increase ○ Refinancing or maximizing recovery of state special and federal revenue

While general fund support for present law adjustments and new proposals are offset with reductions, resulting in a net general fund decrease, state special revenue and federal funds support for the division increase due to the department's proposals to refinance some costs and increase FTE to assist in recovery of additional state special revenue and federal funds. Please refer to the agency narrative for a discussion of refinancing.

Program Reductions and Eliminations

The Executive Budget proposes reduction or elimination of some programs and program components within the division.

Big Brothers and Big Sisters

The Executive Budget eliminates funding for the Big Brothers Big Sisters program (\$366,528 general fund for the biennium). Big Brothers Big Sisters is a statewide organization that matches children with an adult volunteer big brother or big sister. Big Brothers Big Sisters provides services to about 350 children each month.

Child Protective Services Daycare

The Executive Budget eliminates funding for Child Protective Services (CPS) daycare (\$650,026 general fund for the biennium). CPS daycare funds are used to provide childcare services to families involved with child protective services. A general fund appropriation for daycare services for families not eligible for federally funded daycare was first established in the 1981 biennium and by the 1985 biennium a program of Child Protective Services daycare funded with general fund was in place. These families are not eligible for other childcare subsidy programs.

In addition to funding services for families involved in the child protective services system, CPS daycare funds are used as matching funds for the Childcare Development Fund (CCDF) Grant. These funds are matched by the federal government at the Medicaid matching ratio. This \$650,026 of general fund allows the state to draw about \$1.7 million of federal funds. In Montana, federal childcare funds are used to provide services to families below 150 percent of the federal poverty level. The department estimates this funding reduction will result in the elimination of 230 childcare slots. For further discussion of CCDF and childcare funding, refer to the program narrative for the Human and Community Services Division.

Domestic Violence Services

The Executive Budget reduces funding for domestic violence services by \$155,282 general fund. The department states that this reduces general fund support for this program to the minimum level necessary to obtain the federal grant, which requires a 20 percent match. A portion of the matching funds for the federal grant are provided by the general fund and state special revenue provides the balance of the necessary matching funds. This reduction equates to a 14 percent reduction in funding for the program.

In-home Services

The Executive Budget reduces funding for in-home services by \$2,250,720 general fund for the biennium. The department utilizes in-home services as both a preventive and reunification measure for children in foster care. The department states the funds remaining are the minimum level of general fund necessary as matching funds for the federal Promoting Safe and Stable Families (Title IV-B, subpart 2) Grant. The federal grant requires a 25 percent match. The reduction equates to a 45 percent reduction in the program total funds. The department estimates that 1,564 children

from 875 families will not receive services due to this reduction and that 400 children will enter foster care because in-home services are not available. The department does not have data to support the estimate that 400 children will enter foster care, rather it is their best guess.

Caseload Changes

Foster Care

Adjustments to the foster care budget increase general fund support by \$4,912,152 and federal funds by \$2,363,764 for the biennium. The federal funds included in this budget are overstated by \$1.4 million per year due to inclusion of Title XX funds (a transfer from the Temporary Assistance for Needy Families (TANF) grant) that occurred in the base year, but will not be available in the 2005 biennium.

LFD ISSUE

Overstatement of Federal Funds Included in the Executive Budget

Federal funds supporting foster care services are overstated by \$1.4 million per year because Title XX funds are included in the budget, but will not be available due to the unavailability of TANF funds to transfer to Title XX. For discussion of the TANF grant, please refer to the Human and Community Services Division program narrative. For the purposes of analysis, these funds have been removed from the projected budget for foster care services.

The legislature may wish to decrease the funding for foster care by \$1.4 million federal funds per year so that the budget more accurately reflects the funding available to support these services.

Figure 23 summarizes foster care caseload, costs and average annual costs per client, while Figures 24 and 25 display this data graphically. Historically, the average annual rate of increase in the number of clients receiving foster care services has been 2.1 percent between fiscal 1996 and 2002, with no increase experienced between fiscal 2001 and 2002. While the department anticipates the number of clients will increase 3 percent per year plus 400 children who will enter foster care because in-home services are not available, funding for foster care (less the overstated Title XX funds) increases 13 percent above the fiscal 2002 base. No provider rate increases are specifically requested in the Executive Budget.

The foster care budget may be stressed by costs shifts as a result of service reductions in other programs in this division (discussed above) and external to the division such as mental health service reductions and Medicaid eligibility changes. The department indicated that the estimate of 400 children entering foster care due to a lack of in-home services was a "best guess" and that no specific data supporting this estimated increase was available. Additionally, the department did not have an estimate of caseload increases that might occur due to mental health service reductions.

Anecdotal information suggests that many of the children in foster care require mental health services and some foster care children have significant mental health issues. Reductions in funding mental health services (both mental health services plan and Medicaid mental health services), such as outpatient counseling, therapeutic family care, and therapeutic group care, are likely to have an impact on the foster care budget. Because federal foster care funds cannot be used to pay for treatment and most children in foster care are Medicaid eligible, reductions in Medicaid mental health services for children increases the general fund costs for mentally ill foster care children. Additionally, if parents are unable to pay for or access necessary mental health services, they may be unable to care for their children and it may be unsafe for some children to remain at home.

Figure 23
Foster Care and Subsidized Adoption
Summary of Clients, Costs and Costs Per Client
Historical and Executive Budget

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimate* Fiscal 2003	Requested* Fiscal 2004	Requested* Fiscal 2005
Subsidized Adoption Caseload										
Annual Increase in Number of Subsidies		105	119	147	150	208	182	118	120	120
Number of Adoption Subsidies	449	554	673	820	970	1,178	1,360	1,478	1,598	1,718
Annual Percent Increase (Decrease)		23.4%	21.5%	21.8%	18.3%	21.4%	15.4%	8.7%	8.1%	7.5%
Average Annual Rate of Change		23.4%	22.4%	22.2%	21.2%	21.3%	20.3%	18.6%	17.2%	16.1%
Subsidized Adoption Total Costs										
Annual Percent Increase (Decrease)	\$ 1,401,882	\$ 1,666,449	\$ 2,164,369	\$ 2,743,660	\$ 3,307,633	\$ 4,144,749	\$ 5,278,288	\$ 6,537,715	\$ 5,891,640	\$ 7,412,525
Average Annual Rate of Change		18.9%	29.9%	26.8%	20.6%	25.3%	27.3%	23.9%	-9.9%	25.8%
			24.3%	25.1%	23.9%	24.2%	24.7%	24.6%	19.7%	20.3%
Average Annual Costs Per Client										
Annual Percent Increase (Decrease)	\$ 3,122	\$ 3,008	\$ 3,216	\$ 3,346	\$ 3,410	\$ 3,518	\$ 3,881	\$ 4,423	\$ 3,687	\$ 4,315
Average Annual Rate of Change		-3.7%	6.9%	4.0%	1.9%	3.2%	10.3%	14.0%	-16.6%	17.0%
		-3.7%	1.5%	2.3%	2.2%	2.4%	3.7%	5.1%	2.1%	3.7%
Foster Care										
Number of Foster Care Clients (duplicated)	3,528	4,079	3,381	3,690	3,886	4,003	4,004	4,124	4,248	4,375
Annual Percent Increase (Decrease)		15.6%	-17.1%	9.1%	5.3%	3.0%	0.0%	3.0%	3.0%	3.0%
Average Annual Rate of Change		15.6%	-2.1%	1.5%	2.4%	2.6%	2.1%	2.3%	2.3%	2.4%
Foster Care										
Annual Percent Increase (Decrease)	\$ 11,832,804	\$ 12,817,431	\$ 13,370,882	\$ 14,252,025	\$ 16,245,712	\$ 17,482,086	\$ 17,384,567	\$ 17,906,104	\$ 19,694,298	\$ 19,640,040
Average Annual Rate of Change		8.3%	4.3%	6.6%	14.0%	7.6%	-0.6%	3.0%	10.0%	-0.3%
		8.3%	6.3%	6.4%	8.2%	8.1%	6.6%	6.1%	6.6%	5.8%
Average Annual Costs Per Client										
Annual Percent Increase (Decrease)	\$ 3,354	\$ 3,142	\$ 3,955	\$ 3,862	\$ 4,181	\$ 4,367	\$ 4,342	\$ 4,342	\$ 4,636	\$ 4,489
Average Annual Rate of Change		-6.3%	25.9%	-2.3%	8.2%	4.5%	-0.6%	0.0%	6.8%	-3.2%
		-6.3%	8.6%	4.8%	5.7%	5.4%	4.4%	3.8%	4.1%	3.3%
Total - Foster Care and Sub Adopt	\$ 13,234,686	\$ 14,483,880	\$ 15,535,251	\$ 16,995,685	\$ 19,553,345	\$ 21,626,835	\$ 22,662,855	\$ 24,443,819	\$ 25,585,938	\$ 27,052,565

*Notes:

Subsidized Adoption fiscal 2003 estimated per DPHHS (November, 2002).

Foster Care fiscal 2003 estimated based upon 3 percent increase in the number of clients and no increase in the average annual costs per client.

Foster care request for fiscal 2004 and 2005 MBARS data reduced by \$1,355,356 Title XX funds that will not be available in the 2005 biennium.

Figure 24

Foster Care and Subsidized Adoption - Costs

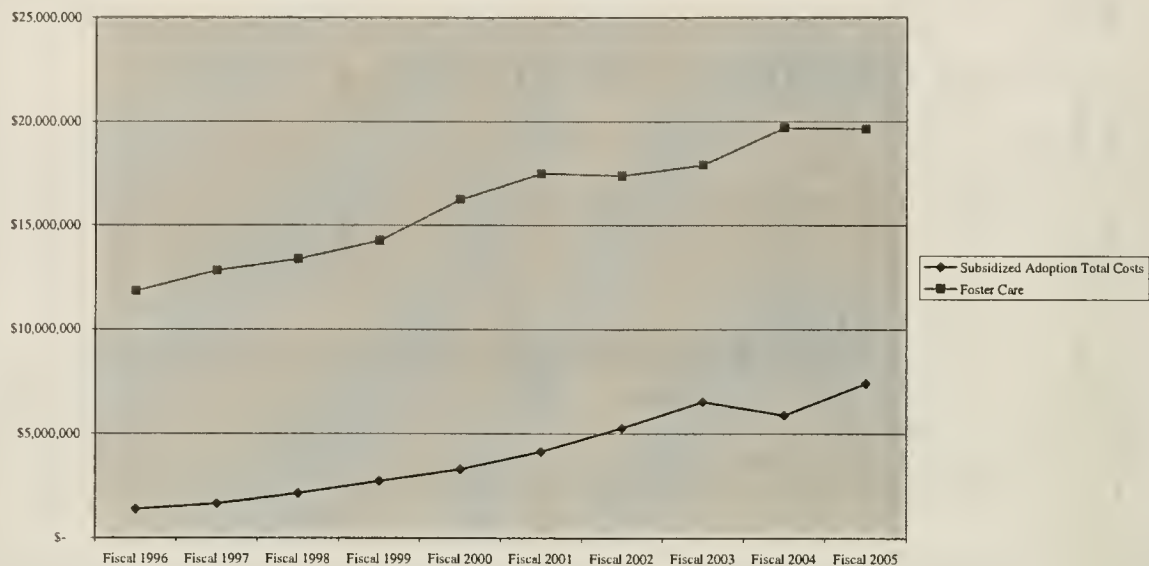
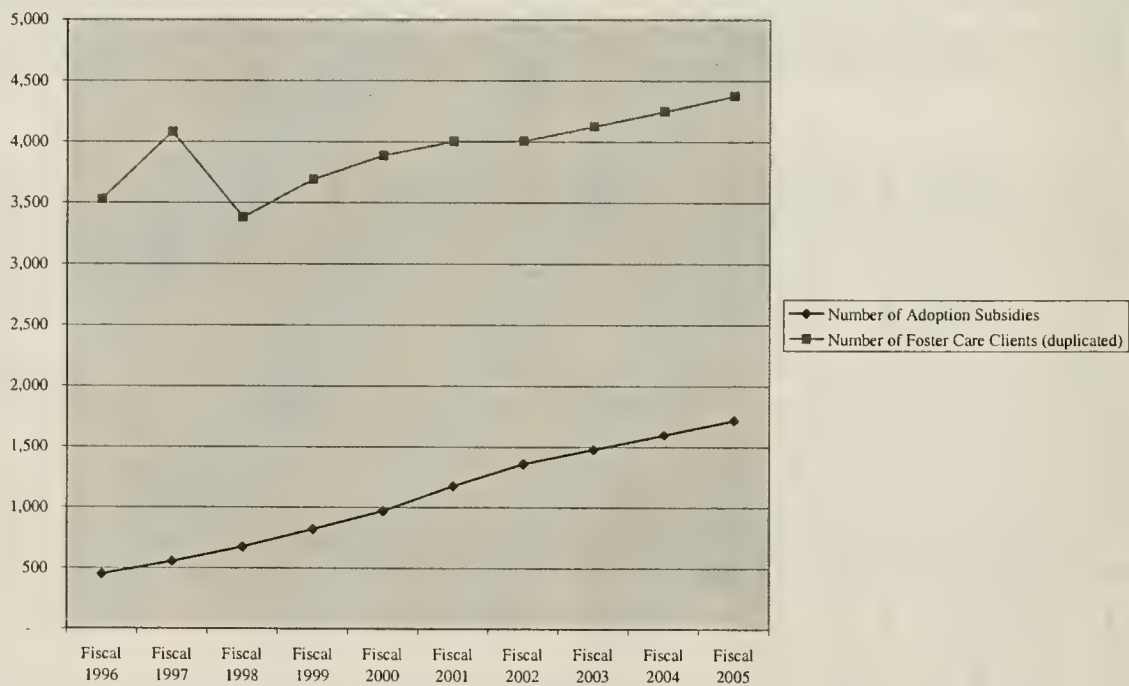


Figure 25

Foster Care and Subsidized Adoption - Clients



Subsidized Adoption

Figure 23 summarizes the subsidized adoption caseload, costs, and average annual costs per client while Figures 24 and 25 display this data graphically. The average annual rate of change in the subsidized adoption caseload between fiscal 1996 and 2002 was 20.3 percent. The Executive Budget includes estimated caseload increases of 120 cases per year, or 8.1 and 7.5 percent for fiscal 2004 and 2005, respectively.

LFD ISSUE

Foster Care and Subsidized Adoption Caseload Increases

While various program funding reductions and eliminations may exert upward pressure on the foster care caseload, data to quantify these impacts is currently unavailable. Legislative staff projected foster care and subsidized adoption caseloads based upon historical trends, giving no consideration to unquantified factors that may influence caseloads.

If foster care caseloads are calculated assuming a 2 percent per year increase in the number of clients, no increase in the average costs per client (no provider rate increases for these services are included in the Executive Budget) and that about 48 percent of the estimated costs are supported by the general fund, fiscal 2004 and 2005 total costs are estimated to be about \$18.1 million and \$18.5 million, respectively. General fund costs for fiscal 2004 and 2005 are estimated to be about \$8.7 and \$8.9 million, respectively, or \$1.5 million less than the Executive Budget. It appears that foster care funding included in the Executive Budget may be overstated by about \$1.5 million. However, if 400 additional children enter foster care in the first year of the biennium, at average annual costs of \$4,342, annual foster care costs increase about \$1.7 million total funds. Given that about 48 percent of foster care costs are funded from the general fund, an additional \$0.8 million per year (\$1.6 million for the biennium) general fund would be needed.

However, it also appears that the subsidized adoption caseload and funding are understated by about \$1.7 million. As illustrated in Figure 23, the annual percent increase in the subsidized adoption caseload has been less than 20 percent only twice since 1996 (18.3 percent in fiscal 2000 and 15.4 percent in fiscal 2002). Given that the subsidized adoption program is an entitlement program and there are no known changes in federal or state law or practice that are likely to change the historical experience for caseload growth in this program, it appears appropriate to use a caseload growth rate similar to that historically experienced. If the caseload increase is calculated assuming an annual rate of change of 15 percent per year in the number of cases (based upon the most recent year) and a 4 percent per year increase in the average costs per case (consistent with the historical rate of change), caseload costs for fiscal 2004 and 2005 are estimated to be about \$7.5 million and \$9.0 million in fiscal 2004 and 2005, respectively. General fund costs are estimated to be \$3.6 million and \$4.3 million for fiscal 2004 and 2005, respectively, or about \$1.7 million more than is included in the Executive Budget.

Given that funding for foster care appears to be overstated and that funding for subsidized adoption appears to be understated, the legislature may wish to:

- Decrease the funding (for the biennium) requested for foster care by \$1.5 million general fund and increase the funding provided for subsidized adoption by a like amount (and provide federal matching funds at the appropriate rate for each service)
- Decrease the funding requested for foster care by \$1.5 million general fund for the biennium
- Increase the funding requested for subsidized adoption by \$1.7 million general fund for the biennium
- Have the department outline the actions that will be taken to fund the subsidized adoption caseload, if caseload costs increase above the level requested in the Executive Budget
- Take no action

Refinancing Proposals

The Executive Budget includes two proposals that are expected to decrease general fund and increase state special revenue and federal funds supporting foster care services. The division proposes adding 2.0 FTE that would be responsible for pursuing social security benefits on behalf of children in care. These benefits are used to offset the costs

of care for the child. The department indicated that currently about 10 percent of the children in care receive social security benefits and that other states such as Washington have been able to recover social security benefits for as much as 20 percent of their foster care caseload.

The division also proposes adding 6.00 FTE in fiscal 2004 and an additional 2.00 FTE in fiscal 2005 (total of 8.00 FTE) to complete eligibility determination for assistance under Title IV-E of the Social Security Act. Currently, staff of the Human and Community Services Division (HCSO) complete this function. Prior to welfare reform, eligibility for Title IV-E was similar to public assistance (AFDC) eligibility. However, when welfare reform was implemented, federal law froze the eligibility criteria for Title IV-E at the same criteria the state was using on July 16, 1996. While public assistance eligibility has changed significantly, Title IV-E eligibility has not--rather, the state must "look back" to 1996. Because workers had been accustomed to public assistance and Title IV-E eligibility being similar, the change in one but not the other increased the complexity of completing eligibility determinations, creating difficulties and increasing the likelihood that an error in eligibility determination could occur.

While a small amount of Title IV-E funding may be used in the HCSO to support eligibility determination functions, it is not a significant funding source for the HCSO division. Title IV-E is a significant funding source for CFSD, providing more than 22 percent of the division's funding during the fiscal 2002 base year and predicted to provide more than 33 percent of the division's funding in the 2005 biennium. The department does not expect this change, if approved, to reduce the level of staff in the HCSO. Given that Title IV-E eligibility determination is a function currently divided among public assistance staff statewide, it is probably not feasible to reduce public assistance staff serving 56 counties an allocated proportion of the 8.00 FTE that will perform Title IV-E eligibility determinations.

Additional information on refinancing, including other refinancing efforts being undertaken by this and other divisions in the department, is included in the agency narrative.

Child Protective Services Performance Audit

House Joint Resolution 32 passed by the 2001 legislature requested that the Legislative Audit Division (LAD) conduct a performance audit of the child protective services system. Among the items HJR 32 recommended for review were: 1) uniformity of practices statewide; 2) application of the Indian Child Welfare Act; 3) integration of cultural needs; 4) relevancy of training for social workers, county attorneys, and courts; and 5) recommendations regarding management, personnel, and training needs of DPHHS for child protective services. The LAD made 17 recommendations to DPHHS, including that the department should:

- Improve coordination and communications among CFSD, the Department of Justice, the Supreme Court, and social workers, county attorneys, and district court judges
- Establish specific policies and procedures for case file documentation, including improved documentation of rationale for decisions
- Improve the system of supervisory review
- Develop a quality control system
- Develop administrative rules governing substantiation fair hearings
- Establish a caseload/workload tracking system
- Establish minimum ongoing training requirements for social workers
- Seek legislation to clarify authority to maintain CPS information on individuals where the division determined children are not in danger and investigations are not needed

The LAD found that cases where the Indian Child Welfare Act (ICWA) applied had documentation deficiencies similar to non-ICWA cases and also found that:

- Expert witnesses are not always called to testify in ICWA cases as required by law and that there are not adequate numbers of expert witnesses available
- More Indian foster homes are needed

The department partially concurred with three recommendations and concurred with all other recommendations. In its response to the audit findings, the division indicated that the audit recommendations parallel conclusions drawn from internal assessments. Additionally, the division indicates that complete implementation of all recommendations may not be possible due to a lack of resources.

**LFD
COMMENT**

The joint subcommittee on Health and Human Services may wish to have the Legislative Audit Division review its finding and recommendations with the subcommittee. The subcommittee may also wish to request that the division update the subcommittee with its progress in implementing changes as recommended by the LAD.

Centralized Intake

The 2001 legislature approved the department's proposal to centralize the function of intake of reports of child abuse and neglect. Under the department's proposal, rather than individuals contacting the local office of child protective services, a centralized unit would be contacted via a toll free (800) telephone number. The divisions proposed this change in an effort to improve statewide consistency and to more efficiently manage the division's workload. The division implemented this change effective January 1, 2002.

**LFD
COMMENT**

The legislature may wish to have the department report on the implementation of centralized intake.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Child & Family Services Div						
<u>Program Funding</u>	<u>Base</u> <u>Fiscal 2002</u>	<u>% of Base</u> <u>Fiscal 2002</u>	<u>Budget</u> <u>Fiscal 2004</u>	<u>% of Budget</u> <u>Fiscal 2004</u>	<u>Budget</u> <u>Fiscal 2005</u>	<u>% of Budget</u> <u>Fiscal 2005</u>
01100 General Fund	\$ 21,330,764	47.2%	\$ 19,761,992	39.5%	\$ 19,984,077	38.7%
02089 Child Abuse & Neglect Program	18,989	0.0%	18,989	0.0%	18,989	0.0%
02209 Third Party Contributions-F.C.	1,286,154	2.8%	1,479,612	3.0%	1,806,612	3.5%
02473 Assault Intervention & Trtmnt	141,701	0.3%	141,701	0.3%	141,701	0.3%
02483 Adoption Services / Sa	25,088	0.1%	25,088	0.1%	25,088	0.0%
02496 Family Preservation Conference	2,160	0.0%	2,160	0.0%	2,160	0.0%
03109 Tanf Benefits	2,650,000	5.9%	2,650,000	5.3%	2,650,000	5.1%
03224 Access & Visitation Grt 93.597	89,414	0.2%	89,414	0.2%	89,414	0.2%
03522 93.556 - Family Preservation	682,803	1.5%	713,866	1.4%	713,947	1.4%
03526 93.643 - Child Justice	144,341	0.3%	144,013	0.3%	144,013	0.3%
03527 93.645 - Iv-B Cws	271,396	0.6%	271,396	0.5%	271,396	0.5%
03528 93.656 - Mt Crisis Nursey Proj	-	-	15,763	0.0%	15,763	0.0%
03530 93.658 - Iv-E Fost Care & Adp	7,077,646	15.7%	12,573,293	25.1%	12,697,015	24.6%
03531 6901 Subsidized Adopt 93.659	3,004,003	6.7%	3,321,576	6.6%	4,169,719	8.1%
03532 93.669 - Child Abuse	82,705	0.2%	84,134	0.2%	84,134	0.2%
03533 93.671 - Domestic Violence	299,000	0.7%	299,000	0.6%	299,000	0.6%
03534 93.672 - Child Abuse Challenge	176,827	0.4%	176,828	0.4%	176,828	0.3%
03536 93.674 - Iv-E Independent Livi	298,768	0.7%	298,768	0.6%	298,768	0.6%
03579 93.667 - Ssbj - Benefits	1,355,356	3.0%	1,355,356	2.7%	1,355,356	2.6%
03593 03 Indirect Activity Prog 03	6,078,849	13.5%	6,517,889	13.0%	6,591,617	12.8%
03964 Adoption Incentive Funds	150,074	0.3%	150,071	0.3%	150,071	0.3%
Grand Total	\$ 45,166,038	100.0%	\$ 50,090,909	100.0%	\$ 51,685,668	100.0%

The CSFD is funded with general fund (38.7 percent), state special revenue (3.9 percent), and federal funds (57.5 percent). The general fund provides matching funds for federal programs. The most significant source of state special revenue is third party contributions such as social security, child support, parental contributions, and other sources of revenue that are collected and used to offset the costs of foster care services for the particular child who is the recipient of the funds.

Funding for foster care and subsidized adoption provided under Title IV-E of the Social Security Act provides more than one-third of the division's funding and is the largest single source of funding for the division other than general fund. The budget includes requests for additional staffing that the department believes will enable them to increase the recovery of third party contributions from social security and federal funds under the Title IV-E program. The general fund is decreased to reflect the increase in federal funds and state special revenue that is anticipated. The most significant of these funding adjustments is a \$3 million reduction in general fund offset by a like amount of federal funds due to refinancing of eligible costs with federal Title IV-E funds.

Figure 26
2003 Biennium Compared to 2005 Biennium
Child and Family Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	344.25	340.45	(3.80)	
Personal Services	\$ 26,117,637	\$ 27,951,552	\$ 1,833,915	20.7%
Operating	7,456,987	7,832,168	375,181	4.2%
Equipment	33,513	45,910	12,397	0.1%
Capital Outlay	28,398	56,796	28,398	0.3%
Grants	8,666,265	6,770,572	(1,895,693)	-21.4%
Benefits/Claims	50,499,610	59,094,281	8,594,671	96.9%
Debt Service	101,799	25,298	(76,501)	-0.9%
Total Costs	\$ 92,904,553	\$ 101,776,917	\$ 8,872,364	100.0%
General Fund	\$ 43,162,557	\$ 39,746,069	\$ (3,416,488)	-38.5%
State Special	2,874,837	3,662,100	787,263	8.9%
Federal Funds	46,866,815	58,368,408	11,501,593	129.6%
Total Funds	\$ 92,904,209	\$ 101,776,577	\$ 8,872,368	100.0%
Percent Increase			9.6%	

Biennial Comparison

Figure 26 summarizes the 2003 biennium funding for the division compared to the 2005 biennium. General fund support for this division decreases almost 8 percent when the two biennia are compared. Total funding for the division increases 9.6 percent between the two biennia, primarily due to estimated increases in federal funds.

Potential Legislation

The department has requested legislation including:

- o LC0424 clarifies that abandonment does not include parents attempting to surrender their children to the department due to inability to access publicly funded services.
- o LC0427 establishes case entrance and exit standards, defines "protective services", establishes that the department may provide, without court intervention, services to permit the child to remain safely in the home, or if removed from the home to return safely to the home.

The department has no estimates of the budgetary impact of these legislative changes.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				1,082,700					1,092,805
Vacancy Savings				(561,542)					(561,913)
Inflation/Deflation				724					16,287
Fixed Costs				31,076					34,181
Total Statewide Present Law Adjustments				\$552,958					\$581,360
DP 16 - Convert Modified FTEs to Permanent FTEs									
7.00	218,150	0	117,465	335,615	7.00	218,150	0	117,465	335,615
DP 17 - Increased Federal Grants									
0.00	0	0	1,055,000	1,055,000	0.00	0	0	1,055,000	1,055,000
DP 18 - Subsidized Adoption Caseload Increase									
0.00	295,779	0	317,573	613,352	0.00	968,521	0	1,165,716	2,134,237
DP 25 - SSI Specialists									
1.50	(42,720)	196,200	(78,480)	75,000	2.00	(213,920)	523,200	(209,280)	100,000
DP 26 - IV-E Eligibility									
6.00	(190,122)	0	430,122	240,000	8.00	(458,885)	0	778,885	320,000
DP 27 - Rent Increases - Inflation									
0.00	183,713	0	150,311	334,024	0.00	209,101	0	171,083	380,184
Total Other Present Law Adjustments									
14.50	\$464,800	\$196,200	\$1,991,991	\$2,652,991	17.00	\$722,967	\$523,200	\$3,078,869	\$4,325,036
Grand Total All Present Law Adjustments				\$3,205,949					\$4,906,396

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 16 - Convert Modified FTEs to Permanent FTEs - The division requests \$436,300 general fund and \$671,230 total funds for the biennium to support 7.00 FTE grade 15 positions as permanent positions. Because these positions were considered modified FTE, they were not included in the fiscal 2002 base budget. These positions have been supported by funds appropriated for contracted in-home services. The division indicates that it is more cost and service effective to utilize employees to provide these services rather than contractors. Four of these positions provide in-home services and three provide family group decision-making services.

DP 17 - Increased Federal Grants - The division requests \$2,110,000 federal funds for the biennium to support increases in Domestic Violence, Safe and Stable Families (Title IV-B, Subpart 2), Adoption Incentive, Children's Justice Act, Child Abuse Prevention and Treatment Act, and Community Based Challenge grants. The division has adequate matching funds available and does not need additional general fund to utilize the increases in these federal grants.

DP 18 - Subsidized Adoption Caseload Increase - This request includes \$1,264,300 general fund and \$2,747,589 total funds for the biennium to support increases in the subsidized adoption caseload. The department projects the caseload will increase by 15 cases per month and the average rate per day will increase by eight cents per month. The funding for Subsidized Adoption is 48 percent general fund and 52 percent federal funds (Title IV-E).

**LFD
ISSUE**

Please refer to the program narrative for a discussion of the subsidized adoption caseload.

DP 25 - SSI Specialists - The division requests \$175,000 total funds, including decreases of \$256,640 general fund and \$287,760 federal funds offset by an increase of \$719,400 state special revenue, to fund 2.00 FTE, grade 14 Supplemental

Security Income (SSI) Specialists. The division proposes adding 1.50 FTE in fiscal 2004 and increasing from 1.50 to 2.00 FTE in fiscal 2005. This proposal assumes the new FTEs will be hired on October 1, 2003.

SSI specialists would be tasked with aggressively pursuing social security assistance for children meeting the social security criteria. Social security payments received would be used to offset the costs of providing services to these children. The division indicates that Washington state uses this concept and is one of four states that receive social security payments for more than 20 percent of the children in care. Montana currently receives social security payments for less than 10 percent of the children in care. In addition to personal services cost this decision package includes funding for \$8,658 and \$14,594 of operating costs in fiscal 2004 and 2005, respectively. The funds for operating costs would be used for rent, computers, office supplies, telephone, travel (to Washington state for training and technical assistance), and other operating costs associated with performance of this function.

**LFD
COMMENT**

Please refer to the program narrative for discussion of this and other refinancing options.

DP 26 - IV-E Eligibility - The department requests \$560,000 total funds for the biennium, comprised of a decrease of \$649,007 general fund offset by an increase of \$1,209,007 federal funds, for 6.00 FTE in fiscal 2004 and an additional 2.00 FTE (a total of 8.00 FTE, one grade 16 and seven grade 14 positions) in fiscal 2005 to move Title IV-E eligibility determination functions from the Human and Community Services Division (HCSD) to the Child and Family Services Division (CFSD). CFSD believes that doing so will result in more aggressive pursuit of Title IV-E eligibility resulting in a higher percentage of cases becoming eligible for federal Title IV-E funding. This request uses the general fund savings realized due to more cases becoming eligible for federal Title IV-E funding to support the positions.

**LFD
COMMENT**

Please refer to the program narrative for discussion of this and other refinancing options.

DP 27 - Rent Increases - Inflation - The division requests \$392,814 general fund and \$714,208 total funds for the biennium to fund increases in rental costs at current office locations throughout the state. Increases in rent are expected due to inflation and changes in office location. Many of the lease agreements for office space include yearly inflationary increases and are multi-year contracts. The largest rent increase is in the Billings regional office. Because the division had to move to a new location, the rent increased from \$62,485 to \$251,992 per year.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 28 - Refinancing - Federal Funds										
03	0.00	(3,000,000)	0	3,000,000	0	0.00	(3,000,000)	0	3,000,000	0
DP 271 - Base Adjustment to BBBS										
03	0.00	(183,264)	0	0	(183,264)	0.00	(183,264)	0	0	(183,264)
DP 272 - Base Adjustment to Central Office										
03	0.00	0	0	0	0	0.00	(30,034)	0	0	(30,034)
DP 273 - Base Adjustment for CPS Daycare										
03	0.00	(325,013)	0	0	(325,013)	0.00	(325,013)	0	0	(325,013)
DP 274 - Base Adjustment for Domestic Violence										
03	0.00	(77,641)	0	0	(77,641)	0.00	(77,641)	0	0	(77,641)
DP 275 - Base Adjustment for Foster Care										
03	0.00	2,500,000	0	1,147,083	3,647,083	0.00	2,500,000	0	1,092,825	3,592,825
DP 276 - Base Adjustment for In Home Services										
03	0.00	(1,114,364)	0	0	(1,114,364)	0.00	(1,136,356)	0	0	(1,136,356)
DP 281 - FTE Reduction										
03	(6.30)	(130,930)	(2,742)	(94,207)	(227,879)	(6.30)	(130,930)	(2,742)	(93,611)	(227,283)
Total	(6.30)	(\$2,331,212)	(\$2,742)	\$4,052,876	\$1,718,922	(6.30)	(\$2,383,238)	(\$2,742)	\$3,999,214	\$1,613,234

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 28 - Refinancing - Federal Funds - The department is currently working on a "Refinancing" project, which is estimated to save \$6 million general fund and increase federal funds a like amount during the 2005 biennium. Per the executive, the increase in Title IV-E revenue will be accomplished using several different methodologies, including a retroactive review of cases to determine which cases can be brought into compliance with Title IV-E requirements and thus, be funded from this source. Although the funding increase has been included in the budget entirely as Title IV-E federal funds, the division also plans to implement Medicaid funded Targeted Case Management (TCM) for non-Title IV-E cases, which will increase federal Medicaid revenue.

DP 271 - Base Adjustment to BBBS - This decision package eliminates \$366,528 general fund for the Big Brothers Big Sisters program from the 2005 biennium budget. The CFSD has nine contracts with BBBS in the most populous counties of Montana. BBBS serves approximately 350 children each month. If this decision package is approved, these children will no longer receive services unless another source of funding is obtained.

LFD COMMENT

Please refer to the division narrative for a discussion of this reduction.

DP 272 - Base Adjustment to Central Office - This decision package reduces central office funding for in-home services by \$30,034 general fund for the 2005 biennium. This reduction in in-home services means that approximately 40 children from 22 families will not receive services. Without these services, some of the children may be removed from their homes and placed into foster care.

LFD COMMENT

Please refer to the division narrative for discussion of the impacts of in-home service reductions.

DP 273 - Base Adjustment for CPS Daycare - The Child Protective Services (CPS) daycare budget is eliminated saving \$650,026 general fund for the 2005 biennium. These funds are used to provide childcare services to families involved with the child protective services system. Also, the Human and Community Services Division utilizes these funds as matching funds for the federal Child Care Development Fund Block Grant. Elimination of this general fund results in a loss of more than \$1.7 million in federal funds. The department estimates that 230 childcare slots will be lost as a result of this reduction.

LFD COMMENT

Please refer to the Human and Community Services Division narrative for a discussion of childcare services.

DP 274 - Base Adjustment for Domestic Violence - This decision package removes \$155,282 general fund support for the domestic violence program from the 2005 biennium budget, reducing the funding available for about 24 domestic violence service providers. The department indicates that this is the maximum amount of funding that can be reduced while retaining the ability to spend the entire federal grant, which has a matching rate of 80 percent federal funds to 20 percent state and local funds.

DP 275 - Base Adjustment for Foster Care - This adjustment would increase the foster care general fund by \$5,000,000 and federal funds by \$2,239,908 for the 2005 biennium. A portion (\$1.4 million general fund) of this increase is because

Title XX funds are not available in the 2005 biennium. In addition, the foster care budget is expected to increase as a result of the proposed reductions to in-home services.

**LFD
ISSUE**

Please refer to the program narrative for a discussion of the overstatement of federal funds, and foster care caseload estimates and funding.

DP 276 - Base Adjustment for In Home Services - This decision package reduces general fund support for in-home services by \$2,250,720 for the 2005 biennium. Per the division, this amount reflects the maximum general fund reduction that may be implemented without losing the ability to spend the federal IV-B, Subpart 2 Promoting Safe and Stable Families Grant, which requires 25 percent state matching funds. The division contracts with about two-dozen providers for in-home and family reunification services. If this decision package is approved, contracts would be reduced by approximately 50 percent. The department estimates that contractors will have to terminate 35-40 employees.

DP 281 - FTE Reduction - This proposal reduces 6.30 FTE for a savings of \$261,860 general fund, \$5,484 state special revenue and \$187,818 federal funds for the biennium.

**LFD
COMMENT**

The division plans to eliminate the following positions: Administrative Support (2.30 FTE), Administrative Officer (1.00 FTE), Attorney (1.00 FTE), Case Aide (1.00 FTE) and Program Specialist (1.00 FTE).

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	47.00	0.00	2.75	49.75	0.00	2.75	49.75	49.75
Personal Services	2,420,580	(209,346)	108,213	2,319,447	(208,051)	107,867	2,320,396	4,639,843
Operating Expenses	2,345,303	192,864	456,743	2,994,910	202,413	456,743	3,004,459	5,999,369
Equipment	0	0	0	0	0	0	0	0
Grants	22,896	0	0	22,896	0	0	22,896	45,792
Transfers	0	0	0	0	0	0	0	0
Debt Service	22,025	0	750	22,775	0	750	22,775	45,550
Total Costs	\$4,810,804	(\$16,482)	\$565,706	\$5,360,028	(\$5,638)	\$565,360	\$5,370,526	\$10,730,554
General Fund	1,594,576	(560,184)	0	1,034,392	(557,476)	0	1,037,100	2,071,492
State/Other Special	1,171,486	626,095	179,527	1,977,108	631,975	179,423	1,982,884	3,959,992
Federal Special	2,044,742	(82,393)	386,179	2,348,528	(80,137)	385,937	2,350,542	4,699,070
Total Funds	\$4,810,804	(\$16,482)	\$565,706	\$5,360,028	(\$5,638)	\$565,360	\$5,370,526	\$10,730,554

Program Description

The Director's Office provides overall policy development and administrative guidance for the department. Several functions and programs are also directly administered by the Director's Office including legal affairs, personnel services, public information, the prevention resource center, the Montana Tobacco Use Prevention Program, the AmeriCorps*VISTA Program, the Montana Abstinence First Education Program, and the Montana Telecommunications Access Program (MTAP). The Department of Public Health and Human Services Statewide Advisory Council and the Native American Advisory Council are administratively attached and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

Program Narrative

Director's Office Major Budget Highlights	
○ Funding switch reduces general fund by \$1 million and increases tobacco settlement state special revenue by a like amount per I-146 ○ MTAP program increases about \$710,000 over the biennium and 1.00 FTE ○ Additional VISTA program volunteer placements in communities adds about \$690,000 over the biennium and 0.75 FTE ○ Federal grant increases for abstinence program • About \$84,000 over the biennium and 1.00 FTE	

Major LFD Issues

- Executive Budget does not request funding for expanded tobacco control and prevention program authorized by I-146
- MTAP issues
 - Remaining fund balance is about \$71,000 at the end of the biennium based on the executive request and legislative staff revenue estimates
 - Annual program expenditures higher than annual revenues
 - Executive request may be understated for relay costs, which state is required to provide
 - States not required to provide equipment
 - Collecting equipment fees appears to not be cost effective

The Director's Office budget request increases about 12 percent from the base budget to fiscal 2005 and includes funding for 2.75 new FTE. General fund declines from 33 percent of the base budget funding to 19 percent of the 2005 biennium request, for a total reduction of about \$1.3 million.

The reduction in general fund and increase in state special revenue is due to a fund switch, which reduces general fund by \$453,611 each year of the biennium and increases tobacco settlement state special revenue by a like amount. This funding switch was made in response to passage of I-146, which amended state statute to allocate 32 percent of the tobacco settlement proceeds to a state special revenue account to fund a statewide tobacco disease prevention program.

The major increases in the executive request include:

- MTAP program increases for replacement equipment and additional relay services, including addition of video relay services- about \$710,000 over the biennium and 1.00 FTE
- Additional VISTA program volunteer placements in communities - about \$690,000 over the biennium and 0.75 FTE
- Federal grant increases for the abstinence program - about \$84,000 over the biennium and 1.00 FTE

LFD ISSUE

The Executive Budget does not include a request to expend the amount of tobacco settlement proceeds allocated to tobacco prevention and cessation by I-146. This issue is presented in more detail in the agency narrative, where potential to offset additional general fund, beyond the offset included in the Executive Budget, is noted.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Director'S Office						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,594,576	33.1%	\$ 1,034,392	19.3%	\$ 1,037,100	19.3%
02099 69010-Vista-Community Cost Share	71,603	1.5%	71,869	1.3%	71,931	1.3%
02159 Handicapped Telecommunications	924,918	19.2%	1,300,731	24.3%	1,306,169	24.3%
02377 02 Indirect Activity Prog 04	174,965	3.6%	150,897	2.8%	151,207	2.8%
02790 Statewide Tobacco Prevention Fund	-	-	453,611	8.5%	453,577	8.4%
03072 Vista Projects	-	-	343,915	6.4%	343,811	6.4%
03208 Abstinence Education Blk Grant	203,562	4.2%	243,828	4.5%	243,764	4.5%
03594 03 Indirect Activity Prog 04	1,020,554	21.2%	917,480	17.1%	919,718	17.1%
03822 Tobacco Control	820,626	17.1%	843,305	15.7%	843,249	15.7%
Grand Total	\$ 4,810,804	100.0%	\$ 5,360,028	100.0%	\$ 5,370,526	100.0%

The 2005 biennium budget request for the Director's Office is funded through a combination of general fund (19 percent), state special revenue (37 percent) and federal funds (44 percent). Some functions are supported directly by state special revenue and federal grants. Otherwise, the functions in the Director's Office are allocated among funding sources depending on cost allocation plans that are federally reviewed and approved. General fund matches some costs subject to the federally approved cost allocation plans and makes up some of the differences between what federal sources will fund and the balance of program costs.

State special revenue funds are derived through Interagency Coordinating Council funding transfers, the DPHHS cost allocation plan and the MTAP tax -- a 10-cent per month assessment on every telephone line in the state, which is collected by telecommunication services providers.

Federal funds include federal grants for the Montana Abstinence Program, tobacco education and prevention, VISTA volunteer programs administered by the Director's Office, and grant funds received through the cost allocation plan, which pays a portion of Director's Office administrative costs.

Figure 27 shows the projected fund balance for the telephone line tax that supports MTAP at the end of the 2005 biennium. The actual ending fund balance for fiscal 2002 was \$754,575. Revenues are projected to grow at rates of 3 to 5 percent annually, slightly lower than historic rates of growth, leaving a projected ending fund balance of about \$71,000 in fiscal 2005.

Figure 27
Projected MTAP Fund Balance
Executive 2005 Biennium Budget and LFD Revenue Estimates

Fund Balance Expenditure/Revenue	Actual Fiscal 2002	Projected Fiscal 2003	Executive Budget Fiscal 2004 Fiscal 2005	
Beginning Fund Balance	\$ 755,723	\$ 754,575	\$ 656,499	\$ 334,008
Expenditures*	1,031,154	1,153,111	1,442,643	1,448,046
Revenues**	1,030,006	1,055,035	1,120,152	1,185,269
Ending Balance	\$ 754,575	\$ 656,499	\$ 334,008	\$ 71,231

*Expenditures are based on information provided by DPHHS and the Executive Budget request.

**Revenues are based on LFD staff projections.

LFD ISSUE

Structural Imbalance

The MTAP program funds telecommunication relay services for all hearing and mobility impaired persons and provides specialized telecommunication equipment to persons with incomes below 400 percent of the federal poverty level. Federal criteria require states to provide relay services, but not equipment. The program is funded by a 10 cent monthly tax on each telephone line.

**LFD
ISSUE
(Cont.)**

The Executive Budget for MTAP is based on expenditures that exceed annual projected revenues (see Figure 28). The legislature may wish to request that the executive present a budget next biennium that will resolve this structural imbalance and provide policy options for consideration by the legislature.

The program is required to develop and apply a means test for its services. The legislature could direct the program to live within its appropriation by adjusting services provided, financial eligibility, or cost sharing in such a manner as to assure that the ending fund balance at the end of a biennium together with projected revenues would be sufficient to operate the program in the coming biennium. Such a change would require an amendment to statute. The legislature could consider the following language:

"The board must manage the Montana Telecommunications Access Program so that unspent funds from the fee imposed in 53-19-311 at the end of the current fiscal year together with projected revenues in the following fiscal year are adequate to fund services in the following fiscal year. If the current fiscal year projected ending fund balance together with projected revenues in the following fiscal year will be inadequate to fund services in the following year, the board must revise services provided, financial eligibility criteria, the fees charged for services, or a combination of those actions so that the program remains solvent."

Figure 28

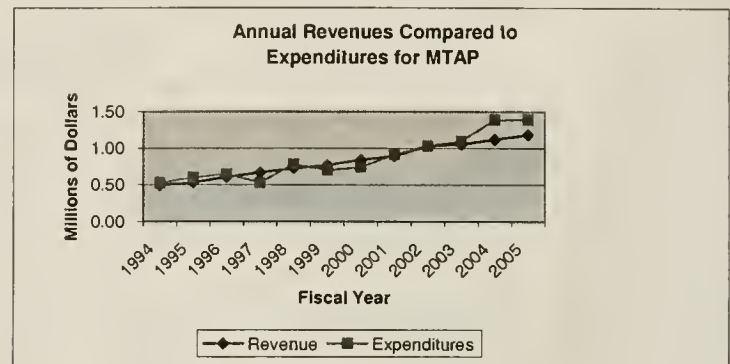


Figure 29

**2003 Biennium Compared to 2005 Biennium
Director's Office**

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	47.00	49.75	2.75	
Personal Services	\$ 4,365,410	\$ 4,639,843	\$ 274,433	24.6%
Operating Costs	5,113,121	5,999,369	886,248	79.6%
Equipment	8,948	0	(8,948)	-0.8%
Grants	91,779	45,792	(45,987)	-4.1%
Debt Service	37,612	45,550	7,938	0.7%
Total Costs	\$ 9,616,870	\$ 10,730,554	\$ 1,113,684	100%
General Fund	\$ 2,871,211	\$ 2,071,492	\$ (799,719)	-71.8%
State Special	2,480,869	3,959,992	1,479,123	132.8%
Federal Funds	4,264,790	4,699,070	434,280	39.0%
Total Funds*	\$ 9,616,870	\$ 10,730,554	\$ 1,113,684	100%
Percent Increase			11.6%	

Biennial Comparison

As shown in Figure 29, the Director's Office budget increases \$1 million in total funds, including a \$0.8 million general fund reduction, between the 2003 biennium and the 2005 biennium request. The majority (132 percent) of the increase is in state special revenue from MTAP and tobacco settlement revenues, while federal grants for VISTA and abstinence programs increase.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				(117,212)					(115,861)
Vacancy Savings				(92,134)					(92,190)
Inflation/Deflation				3,498					4,607
Fixed Costs				17,069					20,106
Total Statewide Present Law Adjustments				(\$188,779)					(\$183,338)
DP 31 - MTAP Program Increases - OTO									
0.00	0	172,297	0	172,297	0.00	0	177,700	0	177,700
DP 100 - Reduce Tobacco Prevention Funding									
0.00	(453,611)	453,611	0	0	0.00	(453,577)	453,577	0	0
Total Other Present Law Adjustments									
0.00	(\$453,611)	\$625,908	\$0	\$172,297	0.00	(\$453,577)	\$631,277	\$0	\$177,700
Grand Total All Present Law Adjustments				(\$16,482)					(\$5,638)

Executive Present Law Adjustments

The primary changes to the adjusted base budget included in the executive present law are shown in the table "Present Law Adjustments". Statewide present law adjustments are standard categories of adjustments made to all agencies and legislative decisions on these items will be applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

LFD COMMENT

Personal services include a vacancy savings reduction of 4 percent, totaling \$184,324 over the biennium.

DP 31 - MTAP Program Increases - OTO - This request adds \$349,997 state special revenue over the biennium for Montana relay service growth, equipment costs, increased outreach efforts, and increased rent. The appropriation is requested as a one-time-only appropriation.

The largest share of this request (\$142,407) would support increased service relay costs, which assumes an annual compounded growth rate of 6.6 percent per year from fiscal 2002. During fiscal 2002, Montana Relay achieved and sustained an average call rate of 10,000 calls per month, resulting in an average number of billable minutes of three minutes per call. Montana Relay contracts with Sprint to provide the relay service at \$1.30 per billable minute and the contract rate will be in effect through the end of the 2005 biennium.

LFD ISSUE

The Executive Budget is based on a growth rate in TDD (telecommunication devices for the deaf) usage that is lower than historic growth rates, which have ranged from a low of 10 percent to a high of 16 percent annually. The executive request may be as much as \$104,381 too low to support TDD relay usage based on historic growth rates. If the legislature wishes to budget for TDD usage closer to historic rates, it could consider raising the executive request by \$104,381. There would potentially be enough funding to budget for higher TDD usage because DP 29 Video Relay Service may be overstated in fiscal 2004.

The request includes \$104,540 for equipment. The program will be renegotiating its equipment contract, which expires July 2002. This request anticipates addition of the CapTel phone to replace the current amplified and voice carry over (VCO) telephone units for those people who have significant hearing loss and lose 70 percent of their conversation ability. The standard TTY and relay service does not meet their needs. The cost of the CapTel phone is approximately \$400 per unit. Amplified telephones cost \$63 per unit, TTY machines cost \$340 per unit, and the two VCO units cost \$125 and \$200. Seventy percent of the clients MTAP serves are elderly with hearing loss. With the CapTel phone, users

will be able to direct dial the number they want to call and will be connected to the Relay Service. This feature eliminates the need for the user to remember multiple numbers such as the Relay Service 1-800 number.

Of the 500 TTY units currently in use in Montana, MTAP anticipates replacing 125 of these units with the CapTel phone for a one-time cost of approximately \$50,000. MTAP also anticipates distributing approximately 89 CapTel phones per year; this figure is based on past experience with the number of clients served and their needs.

**LFD
ISSUE**

States are federally required to pay for relay services. However, there is no federal mandate to provide equipment used by state citizens. Montana has opted to provide funding for equipment for persons below a certain income limit (400 percent of the federal poverty level).

The executive request does not include relay service costs for CapTel phones. If provision of the phones increases relay services or if the relay cost of using a CapTel phone is higher than equipment currently in use, the executive request will be understated.

The cost of a CapTel phone is about the same as some of the equipment currently provided by MTAP, but is greater than an amplified telephone. So, provision of CapTel phones will increase equipment costs if persons select a CapTel phone instead of an amplified phone.

In light of these issues the legislature could consider several options:

- Accepting the executive proposal with no change
- Providing equipment to persons at a lower income level than 400 percent of the federal poverty level
- Not providing equipment

An increase in rent of \$18,450 over the biennium would provide more work and storage space for specialized telecommunications equipment distributed by the program and would allow the program to establish a station so that consumers can test and train on the equipment prior to installation in their home.

DP 100 - Reduce Tobacco Prevention Funding - This request replaces \$907,188 general fund with \$907,188 state special revenue funds (tobacco use prevention funds) for the biennium due to the passage of Initiative 146. The initiative created a state special revenue account, which receives 32 percent of the tobacco settlement proceeds received by the state each year. Funds remaining in the account at fiscal year end are transferred to the constitutional tobacco settlement trust fund established by voter initiative during the November 2000 elections.

**LFD
ISSUE**

The Executive Budget does not include a request to fund the tobacco prevention program established by I-146. Legislative staff requested that DPHHS provide a tobacco prevention plan for review by the legislature. This issue is discussed in greater detail in the agency narrative, including identification of potential areas where the legislature could consider additional offsets of general fund in other DPHHS programs.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				Total Funds
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	
DP 29 - MTAP Mt Relay Video Relay Service - OTO										
04	0.00	0	144,600	0	144,600	0.00	0	144,600	0	144,600
DP 30 - MTAP Eligibility Technician										
04	1.00	0	34,927	0	34,927	1.00	0	34,823	0	34,823
DP 32 - Montana Abstinence Program										
04	1.00	0	0	42,264	42,264	1.00	0	0	42,126	42,126
DP 33 - Corporation for National Services										
04	0.75	0	0	343,915	343,915	0.75	0	0	343,811	343,811
Total	2.75	\$0	\$179,527	\$386,179	\$565,706	2.75	\$0	\$179,423	\$385,937	\$565,360

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 29 - MTAP Mt Relay Video Relay Service - OTO - biennium to provide video relay service. This request is for a one-time-only appropriation. Using this service, a deaf or hearing person could call a certified interpreter who could then relay interpretive services through a video call in American Sign Language (ASL) and verbally. Businesses, medical professionals and hospitals could use video services when they need interpreter services to relay a conversation to a deaf person. Montana has a shortage of interpreters as well as a large rural community that need interpretive services where interpreters are not available.

This proposal funds only the relay service cost, not equipment. The Federal Communications Commission (FCC) is considering whether to require states to provide video relay capability. Video relay services are currently being offered on a trial basis for 18 months, which ends December 31, 2003. Montana and other states are not being required to fund services during the trial period. The rate for video relay services during the trial period is \$17 per minute.

LFD ISSUE

There are several issues that the legislature may want to consider if it approves this proposal.

Since the FCC will not rule on the issue until the end of 2003, the legislature may want to restrict the use of this appropriation to video relay services and reduce the first year appropriation commensurate with implementation and start up delays. The legislature could consider a reduction of as much as 50 percent in fiscal 2004.

Since the cost and utilization of video relay services is unknown and the cost may be substantially higher than other relay devices, the legislature may want to consider a statutory amendment to require that the MTAP program be managed in such a way as to ensure adequate funds will be available for services (see suggested language discussed in the funding section).

DP 30 - MTAP Eligibility Technician - The Executive Budget adds \$69,750 state special revenue for the biennium and 1.00 FTE grade 13 eligibility technician to determine if applicants qualify to receive equipment based on changes by the 2001 legislature to the MTAP program.

LFD ISSUE

The 2001 legislature passed SB 360 to establish financial eligibility limits for MTAP to address concerns that without an upper limit the statute may constitute an unconstitutional delegation of legislative authority. Effective July 1, 2001, the financial eligibility standards for MTAP are: family income of not more than 400 percent of the federal poverty level.

**LFD
ISSUE
(Cont.)**

LFD staff requested information on how MTAP implemented the statutory requirement for means testing during the most recent biennium. While rules have been drafted to address the statutory change, the rules were not yet adopted as of November 20, 2002. MTAP program staff assisted in drafting SB 360, which included the financial eligibility changes. The bill did not include a fiscal note. Since that time, the program has determined the significance of the workload and cost of implementation of fees. Estimated fee collections are less than \$12,000 over three years. The legislature may wish to discuss whether collection of fees is cost effective and if not, amend statute to remove the requirement to collect fees. The new FTE may not be needed if the requirement to collect fees is removed.

DP 32 - Montana Abstinence Program - This proposal requests \$84,390 federal funds and funds 1.00 FTE for the biennium for the Abstinence Program. Abstinence education is primary prevention for out-of-wedlock pregnancy, abortion, sexually transmitted disease, and the related psychological and social issues. The 1.00 FTE is to replace a current modified grade 16 position.

DP 33 - Corporation for National Services - This proposal adds \$687,726 federal funds and funds 0.75 FTE for the biennium for the Corporation for National Services grant. These funds will augment funding for the administration and support of the AmeriCorps*VISTA program in the State of Montana.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	176.25	0.00	0.00	176.25	0.00	0.00	176.25	176.25
Personal Services	6,477,726	921,840	0	7,399,566	937,544	0	7,415,270	14,814,836
Operating Expenses	2,708,616	(13,530)	0	2,695,086	(12,226)	0	2,696,390	5,391,476
Local Assistance	0	0	0	0	0	0	0	0
Debt Service	14,264	0	0	14,264	0	0	14,264	28,528
Total Costs	\$9,200,606	\$908,310	\$0	\$10,108,916	\$925,318	\$0	\$10,125,924	\$20,234,840
General Fund	224,997	0	0	224,997	0	0	224,997	449,994
State/Other Special	2,799,172	358,742	0	3,157,914	364,297	0	3,163,469	6,321,383
Federal Special	6,176,437	549,568	0	6,726,005	561,021	0	6,737,458	13,463,463
Total Funds	\$9,200,606	\$908,310	\$0	\$10,108,916	\$925,318	\$0	\$10,125,924	\$20,234,840

Program Description

The Child Support Enforcement Division (CSED) pursues and obtains financial and medical support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Program staff locates absent parents, identifies assets, establishes paternity, and ensures obligated parents maintain medical health insurance coverage for their dependent children. Child support payments are collected for families receiving public assistance, Families Achieving Independence in Montana (FAIM), and those not on assistance. Services are available to any applicant regardless of income level.

Activities carried out by program staff are authorized in Title 40, Chapter 5, MCA, and are mandated by the federal government in accordance with Title IV-D of the Social Security Act, 42 USC 651 et seq., and 45 CFR, Chapter 3.

Program Narrative

Child Support Enforcement Division	
Major Budget Highlights	
o	No increase in general fund support compared to the 2003 biennium, total funds increase 6.1 percent compared to the 2003 biennium
o	Department estimates include collection of revenue from a \$7 per check fee for child support enforcement services
o	A decrease in federal incentive fund revenue
o	An increase in personal services costs due to the reclassification of child support investigators
o	A continuation of staffing reductions implemented during the 2003 biennium that decreased the level of FTE from 191.75 funded by the 2001 legislature to 176.25 funded in the 2005 biennium budget request
Major LFD Issues	
o	Adequacy of state special revenue - statutory changes required in order for the division to realize revenues as estimated by the department
o	Compliance with federal regulations regarding use of federal incentive funds to supplement rather than supplant program expenditures
o	Implementation of a fee for service to provide additional state special revenue

Decrease in Federal Incentive Funds

During the fall of 2001, the division became aware that: 1) the federal incentive funds Montana receives would fall \$4 million below the anticipated level for the 2003 biennium; and 2) Montana had overdrawn reimbursement from the federal government for incentives and would be required to repay the federal government for this overdraw. Because these funds are deposited into a state special revenue account and used to leverage federal funds available under Title IV-D of the Social Security Act on a ratio of 34 percent state funds and 66 percent federal funds, this loss of \$4 million in state special revenue equated to a \$12 million loss in total funds appropriated for the 2003 biennium.

The department and the Office of Budget and Program Planning (OBPP) implemented an expenditure mitigation plan and notified the Legislative Finance Committee that a supplemental appropriation would be requested. After implementation of cost containment measures and revision of revenue estimates, the department estimated that 2003 biennium state special revenue funding for CSED would fall approximately \$0.8 million below the anticipated expenditure level. Due to the use of state special revenue to leverage federal funds, this shortfall equates to \$2.4 million total funds.

The most significant cost containment measures implemented by CSED during fiscal 2002 included:

- o Termination of the contract with Maximus for the customer service unit
- o Transfer of costs for the System for the Enforcement and Recovery of Child Support (SEARCHS) to the Operations and Technology Division
- o Reduction in staff

Because personal services costs account for 73 percent of the division's budget, any reduction in funding likely equates to a decrease in staffing. The level of FTE funded in this division has decreased 8 percent, from 191.75 funded by the 2001 legislature, to 176.25 included in the 2002 base budget and continued in the 2005 biennium budget request.

Reclassification of Child Support Investigators

On March 12, 2002 the Montana Supreme Court issued its decision in a case that challenged the personal services pay classification of child support investigators. The court determined that child support investigators should have been classified one grade level higher than they had been classified. This resulted in the division owing employees back pay for the difference in salary and increased ongoing expenditures for this group of employees. As a result, \$1,207,827 (\$410,661 state special revenue and \$797,166 federal funds) was transferred from the personal services contingency fund in the Governor's office to CSED for the costs of retroactive payment of child support investigators.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor. The 2005 biennium budget as requested is funded by the general fund (2.2 percent), state special revenue (31.2 percent) and federal funds (66.5 percent). The primary sources of state special revenue are retention of the state's share of collections for clients who receive or have received cash assistance from the state, and performance based incentives awarded by the federal government.

Program Funding Table Child Support Enforcement						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 224,997	2.4%	\$ 224,997	2.2%	\$ 224,997	2.2%
02187 Child Support State Share	2,799,172	30.4%	3,157,914	31.2%	3,163,469	31.2%
03109 Tanf Benefits	186,386	2.0%	-	-	-	-
03570 93.563 - Child Support lvd 66%	5,878,684	63.9%	6,614,638	65.4%	6,626,091	65.4%
03605 93.563 - Child Support lvd 90/	111,367	1.2%	111,367	1.1%	111,367	1.1%
Grand Total	\$ 9,200,606	100.0%	\$ 10,108,916	100.0%	\$ 10,125,924	100.0%

The Child Support Performance and Incentive Act of 1998 mandated a revised method for calculating incentive payments. The implementation of this revised incentive calculation was phased in over a 3-year period. Initially, it appeared that the change in federal incentive calculations would be beneficial to Montana. However, when Montana received notification of its federal incentive award, in the fall of 2001, the award amount was approximately \$2 million less than had been anticipated. A comparison of the estimate of incentive fund and the actual award calculation revealed that Montana had not properly applied the factor that compares incentives earned by Montana to the incentives earned by all states. This type of error was possible because final regulations governing the change in federal incentive fund calculations were not published until December 27, 2000 and because states are not notified until a year after the close of the federal fiscal year of the incentive funds earned by the state. However, states draw incentive funds from the federal government based upon state estimates.

In November 2002 Montana was notified of the incentive funds earned for federal fiscal 2001. Montana earned incentive funds of \$1.2 million for federal fiscal 2001, but drew \$2.1 million of federal funds.

**LFD
ISSUE**2003 Biennium Negative Fund Balance

The CSED is currently operating in a deficit situation. June 2002 estimates prepared by DPHHS projected that the CSED would experience a funding short fall of \$0.8 million general fund in fiscal 2003. This amount was included in the department's estimated supplemental appropriation at that time. However, the supplemental appropriation for the department that was presented to the Legislative Finance Committee at their November 2002 meeting did not include a supplemental appropriation for CSED. Department staff indicated that they are in the process of updating estimates for fiscal 2003, verifying financial activity for this fund, recording necessary accounting corrections, and exploring ways to adequately fund the division. Department staff indicated options for funding the division include use of available general fund from other divisions in the agency and requesting that the Office of Budget and Program Planning approve a request for a supplemental appropriation.

While further program reductions could be considered, the program would need to be reduced by more than one-third of its current size to reduce expenditures to a level that can be supported by the available revenue for the remainder of the year. A reduction of this magnitude would likely have a significant detrimental effect on the program and compliance with federal requirements. Whether or not the division is in compliance with federal regulations will be determined when the federal audit is completed. Montana is scheduled to be audited within the next year. Because CSED is not able to generate sufficient state special revenue to support the division's operation for the 2003 biennium, the department's options for funding CSED are:

- Request a supplemental appropriation
- Transfer of general fund from another division to CSED. Because current budget status information is unavailable, the likelihood of funds being available to transfer from another division is currently unknown.

**LFD
ISSUE**Department Projections Include Collection of Fees to Achieve Solvency

Figure 30 summarizes the estimated fee revenue and expenditures for the Child Support Enforcement state special revenue account. The Executive Budget includes state special revenue funding for CSED and SEARCHS of \$6.9 million for the biennium. Legislative staff estimates that based upon current information CSED will earn only \$5.4 million of state special revenue, \$1.5 million less than the proposed level of expenditures included in the Executive Budget. This is in addition to shortfalls estimated for the 2003 biennium.

Figure 30 Summary of State Special Revenue Fund - Child Support Collections				
Description	Fiscal 2002	Fiscal 2003*	Fiscal 2004	Fiscal 2005
Beginning Balance	\$ (67,256)	\$ (2,698,269)	\$ (5,042,598)	\$ (5,822,544)
Revenues:				
State Share of TANF Collections	1,319,236	1,300,000	1,300,000	1,300,000
Federal Incentive Funds	370,279	471,450	1,358,352	1,358,352
Other Revenue	(210,486)	20,000	20,000	20,000
Total Revenues	\$ 1,479,029	\$ 1,791,450	\$ 2,678,352	\$ 2,678,352
Expenditures:				
CSED Expenditures	\$ 3,821,426	\$ 3,229,333	\$ 3,161,374	\$ 3,167,203
Present Law Adjustments	-	-	(3,460)	(3,734)
SEARCHS	288,616	906,446	300,384	300,384
Total Expenditures	\$ 4,110,042	\$ 4,135,779	\$ 3,458,298	\$ 3,463,853
Revenue Over (Under) Expenses	\$ (2,631,013)	\$ (2,344,329)	\$ (779,946)	\$ (785,501)
Ending Balance	\$ (2,698,269)	\$ (5,042,598)	\$ (5,822,544)	\$ (6,608,045)
<u>Summary of General Fund Support :*</u>				
CSED	\$ 224,997	\$ 225,000	\$ 224,997	\$ 224,997
SEARCHS	649,563	254,214	676,049	676,049
Total General Fund Support	\$ 874,560	\$ 479,214	\$ 901,046	\$ 901,046
*Notes:				
CSED is the Child Support Enforcement Division				
SEARCHS is the System for the Enforcement and Recovery of Child Support				
Fiscal 2003 revenues are estimated revenues given current data, fiscal 2003 expenditures are based upon appropriations.				

The department estimates that state special revenue collections will be adequate to fund the division and SEARCHS at the requested level. The department's estimates of state special revenue due to retained collections of child support and federal incentive funds exceed legislative staff estimates somewhat. However, the key difference between department estimates and legislative staff estimates is revenue collection through the imposition of a \$7 per check fee for the collection of child support. The department estimates that state special revenue collections of fees will be \$785,400 per year (\$1,570,800 for the biennium). Inclusion of revenue generated by fees is key to the department's projection for this fund. However, the department currently does not have statutory authority to charge fees. Thus, the proposed budget is dependent upon legislative approval of statutory changes to allow the division to charge and collect fees.

Without additional revenues or an appropriation of general fund, the division will need to reduce expenditures and services by about one third of their annual budget in order to maintain operations within the projected state special revenue funding for the 2005 biennium (not including the 2003 biennium shortfall). A reduction of this size is likely to have significant impact on the amount of support collected for families and reduce the amount of Medicaid costs avoided due to medical support orders. Additionally, a decrease in funding of this magnitude would likely make it difficult for

**LFD
ISSUE
(Cont.)**

the state to maintain compliance with federal requirements.

The current sources of state special revenue for CSED are unlikely to change significantly. However, Montana could generate additional state special revenue by charging users of child support enforcement services a fee. Under federal law the division is required to provide services to anyone who applies, regardless of their ability to pay for services.

A Government Accounting Office (GAO) report, completed in June 1992, estimated that 53 percent of the non-welfare clients receiving child support enforcement services had incomes exceeding 150 percent of the poverty level. The GAO also estimated that of women requesting services, 42 percent reported incomes exceeding 200 percent of the federal poverty level, and 21 percent exceeded 300 percent of the federal poverty level.

The most current available federal financial reports indicate that: 1) in federal fiscal 1999 and 2000 about 33 and 31 percent, respectively, of the cases in which collections were made were cases that had never received welfare assistance; and 2) Montana's distributed collections for non-welfare cases has increased from \$21.2 million to \$35.0 million between federal fiscal 1996 and 2000. Based upon this information, a 10 percent fee on fiscal 2000 non-welfare collections would have generated \$3.5 million of revenue, of which the state's share would have been approximately \$1.0 million. The costs of implementing and collecting a fee for use of CSED services are currently unknown. It would be reasonable to anticipate that costs would be incurred for items such as changes in computer programming and processing if a fee for services is implemented.

The concept of charging a fee for child support collection is not new in Montana. The 1997 legislature provided CSED the statutory authority to implement charging of a fee for services and included language in HB 2 directing the implementation of a fee to recover costs from parties receiving services if CSED estimated that state special revenue was insufficient to fund appropriations. CSED implemented the use of a fee in July of 1998 and collected \$348,182¹ of state special revenue during fiscal 1999. CSED charged non-welfare users a fee of \$7 per check issued, or 10 percent of the check amount, whichever was lower.² The 1999 legislature amended statute and removed the authority previously granted to CSED to charge fees for services rendered. The legislative budget analysis of the 2001 biennium budget stated fee charges were estimated to generate state special revenue of \$826,000 for the 2001 biennium.³ The 1999 legislature provided CSED a one-time general fund appropriation to make up for the estimated revenue lost if fees were not charged.

If the CSED is to provide services at the level funded in the proposed budget, additional revenue must be generated or funding from the general fund is necessary. Given that department projections rely on the collection of fees to balance fund revenues and expenditures, legislative action is necessary. Options that the legislature may consider are:

- Approve legislation allowing the division to charge and collect fees for provision on child support enforcement services, and direct the department to increase state special revenues available for leveraging federal funds by implementing a fee for service. If this option is chosen the legislature may wish to have the division prepare a proposal(s) that complies with federal program requirements for legislative review
- Provide the division an additional \$1.6 million general fund appropriation for the 2005 biennium and decrease the funding from state special revenue to the level that is likely to be realized

¹ Legislative Budget Analysis, 2001 Biennium, prepared by Montana Legislative Fiscal Division, January 1999, Table 14, page B-41.

² Legislative Budget Analysis, 2001 Biennium, prepared by Montana Legislative Fiscal Division, January 1999, page B-42.

³ Federal regulations require that costs recoveries be shared with the federal government. In the case of child support enforcement cost recovery the state retains an amount equivalent to the federal medical assistance participations rate (FMAP). Montana's FMAP is generally about 28 – 30 percent. The \$826,000 estimated state special revenue for the 1999 biennium is the state share of the estimated costs recovery.

**LFD
ISSUE****Compliance with Federal Requirement to Use Incentive Fund to Supplement**

It is important funding for CSED be at a level adequate to maintain compliance with federal requirements. If the program does not comply with applicable federal regulations, not only does the state lose the federal funding available from this source, it also becomes ineligible to receive a Temporary Assistance for Needy Families (TANF) block grant to support public assistance programs. Currently, Montana's annual TANF grant award is about \$44 million per year. Additionally, there are a number of penalties that may be assessed to a state if the state is out of compliance with federal requirements.

Federal regulations require that incentive funds be used to supplement the program and not to supplant state support for the program. A base level of minimum state support that must be maintained was calculated and will be used to measure state compliance with this requirement. Montana must continue to expend \$2,692,644 annually of state funds (general fund and state special revenue) to comply with this federal requirement.

The federal penalty for failing to comply with this requirement is a dollar for dollar decrease in the federal incentive funds awarded to the state. Thus if Montana spends \$500,000 less than is required, federal incentive funds awarded to the state are decreased \$500,000. Because these funds become state special revenue and are then used as match in a 2:1 ratio this \$500,000 reduction also results in the loss of \$1 million of federal funds.

The proposed budget, including revenue generated from charging fees, is adequate funding for the division to comply with this requirement. However, if the legislature fails to either pass legislation allowing the department to charge fees, or provide the division increased general fund support, it is likely that the division will be in jeopardy of failing to comply with this federal requirement.

Biennial Comparison

As illustrated in Figure 31, 2005 biennium funding for the division increases 6 percent when compared to the 2003 biennium. General fund support for the division remains essentially the same. The majority of the division's funding, 73 percent, supports personal services, while the division's remaining funding supports operating costs.

Figure 31
2003 Biennium Compared to 2005 Biennium
Child Support Enforcement Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	191.75	176.25	(15.50)	
Personal Services	\$ 13,852,864	\$ 14,814,836	\$ 961,972	73.2%
Operating	5,184,993	5,391,476	206,483	26.6%
Equipment	-	-	-	0.0%
Capital Outlay	-	-	-	0.0%
Grants	6,249	-	(6,249)	0.0%
Benefits/Claims	-	-	-	0.0%
Transfers	-	-	-	0.0%
Debt Service	26,722	28,528	1,806	0.1%
Total Costs	\$ 19,070,828	\$ 20,234,840	\$ 1,164,012	100.0%
General Fund	\$ 448,878	\$ 449,994	\$ 1,116	2.2%
State Special	5,830,896	6,321,383	490,487	31.2%
Federal Funds	12,791,054	13,463,463	672,409	66.5%
Total Funds	\$ 19,070,828	\$ 20,234,840	\$ 1,164,012	100.0%
Percent Increase			6.1%	

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				1,230,160					1,246,502	
Vacancy Savings				(308,320)					(308,958)	
Inflation/Deflation				31,517					33,627	
Fixed Costs				(34,871)					(34,871)	
Total Statewide Present Law Adjustments				\$918,486						
DP 236 - Reduce the Number of Leased Vehicles										
0.00	0	(3,460)	(6,716)	(10,176)	0.00	0	(3,734)	(7,248)	(10,982)	
Total Other Present Law Adjustments										
0.00	\$0	(\$3,460)	(\$6,716)	(\$10,176)	0.00	\$0	(\$3,734)	(\$7,248)	(\$10,982)	
Grand Total All Present Law Adjustments				\$908,310						

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 236 - Reduce the Number of Leased Vehicles - This request removes \$7,194 in state special revenue and \$13,964 in federal funds supporting the leasing of two state motor pool vehicles from the division's budget. As a costs saving measure, the division replaced two motor pool leased vehicles with vehicles that were surplus by other agencies.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	50.00	0.00	0.00	50.00	0.00	0.00	50.00	50.00
Personal Services	1,907,552	143,188	0	2,050,740	145,761	0	2,053,313	4,104,053
Operating Expenses	3,011,475	133,720	0	3,145,195	(133,907)	0	2,877,568	6,022,763
Debt Service	40,895	0	0	40,895	0	0	40,895	81,790
Total Costs	\$4,959,922	\$276,908	\$0	\$5,236,830	\$11,854	\$0	\$4,971,776	\$10,208,606
General Fund	2,322,416	117,943	0	2,440,359	(6,635)	0	2,315,781	4,756,140
State/Other Special	278,275	25,347	0	303,622	(8,079)	0	270,196	573,818
Federal Special	2,359,231	133,618	0	2,492,849	26,568	0	2,385,799	4,878,648
Total Funds	\$4,959,922	\$276,908	\$0	\$5,236,830	\$11,854	\$0	\$4,971,776	\$10,208,606

Program Description

The Fiscal Services Division (FSD) provides support services for the Department of Public Health and Human Services. The division provides purchasing services, financial, and accounting services that include cash management, preparation and filing of federal financial reports, and fiscal policy development and implementation. The FSD is staffed with 50.00 FTE.

Statutory authority for the program is provided in Title 17, Chapters 1 and 2, MCA, 45CFR subtitle A, part 92 & subpart C92.2.

Program Narrative

Fiscal Services Division Major Budget Highlights	
○ When compared to the 2003 biennium, the 2005 biennium general fund support for this division decreases 1.1 percent and total funding decreases 1.4 percent ○ Statewide present law adjustments account for the entire increase ○ New division was created through reorganization of the Operations and Technology Division ○ The only adjustments proposed are statewide present law adjustments ○ The department has proposed legislation related to some audit deficiencies	
Major LFD Issues	
None	

The Fiscal Services Division (FSD) provides support services for the Department of Public Health and Human Services. The division provides financial, accounting, and purchasing services for the department that include cash management, preparation and filing of federal financial reports, and fiscal policy development and implementation. The only adjustments proposed for this division are statewide present law adjustments. No other present law adjustments or new proposals are included in the requested budget.

Financial Compliance Audit

The 2001 legislature included language in HB 2 stating,

The department shall make every effort to achieve an unqualified opinion in the financial compliance audit issued by the Legislative Audit Division for the two years ending June 30, 2003. The legislature expects the department to take action to ensure that this achievement occurs, including exempting the fiscal bureau from vacancy savings requirements, exempting the fiscal bureau from reductions in staffing, establishing clear and appropriate fiscal policies and processes, and any other management actions that may reasonably be expected to result in the achievement of an unqualified audit opinion.

The department indicates the following actions were taken in an effort to comply with HB 2:

- The position of deputy director was created. Included in the responsibilities of this position is emphasis on the fiscal affairs of the agency. The administrators of the Fiscal Services Division, Quality Assurance Division, and Operations and Technology Division work closely with the deputy director on planning, coordinating and monitoring the fiscal activities of the agency
- The creation of the FSD through reorganization of the Operations and Technology Division raised fiscal and accounting functions within the agency structure from the bureau level to the division level
- An internal audit function was established
- The FSD and fiscal management issues are a focus of and supported by the director's office
- The FSD has been and will continue to develop clear and appropriate policies and processes
- The FSD has been exempt from vacancy savings and reductions in staffing. However, the division continues to experience staff turnover

In the last financial compliance audit, 24 recommendations were made to the department including that the department:

- Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations
- Implement effective controls to ensure compliance with federal cash management requirements and draw federal funds in accordance with federal regulations
- Complete the calculation of per diem rates by July 1 each year, as required by state law
- Develop a health care database as required by 50-4-502, MCA

In response to the audit the department developed several plans including:

- A corrective action plan to address audit recommendations
- A financial management control structure development plan
- A cash management improvement plan

As of November 2002, action to correct 13 of the 24 audit recommendations had been completed. Action on four items was ongoing and seven items had target dates that had not yet passed.

**LFD
COMMENT**

The legislature may wish to have the department provide an update of their progress in completing actions necessary to achieve compliance with audit recommendations and an unqualified audit opinion.

Potential Legislation

The Legislative Audit Division financial compliance audit for the two fiscal years ending June 30, 2001 identified circumstances where the department was not in compliance with statute. Legislative action to change statutory requirements is being sought by the department in three areas.

LC 430 clarifies that reimbursement to the state hospital and nursing care center, in excess of that needed for bond repayments, is to be deposited to the general fund.

LC 431 changes the deadline for computing per diem rates for the state institutions. Section 53-1-404, MCA directs the department to calculate the per diem costs of each institutional facility by July 1 of the fiscal year. Department staff indicates that it is not possible to meet this deadline because the information needed for the calculation is not available until fiscal year end closing, which typically occurs at the end of July, is completed.

LC 432 proposes to repeal the statutory requirement for a health care database. Section 50-4-502, MCA states: The department, with advice from the health care advisory council, shall design and develop a health care database that includes data on health care resources and the cost and quality of health care services. The purpose of the database is to assist in developing and monitoring the progress of incremental health care reform measures that increase access to health care services, promote cost containment, and maintain quality of care.

The department has not designed or implemented such a system.

Program Reorganization

The department created the Fiscal Services Division by removing: 1) accounting and fiscal management; 2) fiscal policy development and oversight; 3) institutional reimbursement; and 4) purchasing services from the Operations and Technology Division. The department revised the organizational structure after the Legislative Audit Division (LAD) issued a qualified audit opinion for the two fiscal years ending June 30, 2001. The issuance of a qualified audit opinion indicates that the reader of the financial statements should use caution when analyzing the presented financial information and supporting data.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Fiscal Services Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 2,322,416	46.8%	\$ 2,440,359	46.6%	\$ 2,315,781	46.6%
02382 6901-02 Indrct Activity Prog 06	278,275	5.6%	303,622	5.8%	270,196	5.4%
03591 6901 - 03 Indrct Activity Prog 06	<u>2,359,231</u>	<u>47.6%</u>	<u>2,492,849</u>	<u>47.6%</u>	<u>2,385,799</u>	<u>48.0%</u>
Grand Total	<u>\$ 4,959,922</u>	<u>100.0%</u>	<u>\$ 5,236,830</u>	<u>100.0%</u>	<u>\$ 4,971,776</u>	<u>100.0%</u>

The division is funded 47 percent from the general fund, 5 percent from state special revenue, and 48 percent from federal funds. The funding for the division is determined through a complex federally approved costs allocation that charges all programs administered by the department with a portion of the division's costs.

Biennial Comparison

As illustrated in Figure 32, 2005 biennium funding for the division increases 1.4 percent when compared to the 2003 biennium. General fund support for the division decreases 1.1 percent. The majority of the division's funding, 99.2 percent, supports operating costs (59.0 percent) and personal services (40.2 percent).

Figure 32

2003 Biennium Compared to 2005 Biennium Fiscal Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	50.00	50.00	-	
Personal Services	\$ 3,764,183	\$ 4,104,053	\$ 339,870	40.2%
Operating Costs	6,492,701	6,022,763	(469,938)	59.0%
Debt Service	99,438	81,790	(17,648)	0.8%
Total Costs	<u>\$ 10,356,322</u>	<u>\$ 10,208,606</u>	<u>\$ (147,716)</u>	<u>100.0%</u>
General Fund	\$ 4,809,983	\$ 4,756,140	\$ (53,843)	46.6%
State Special	502,072	573,818	71,746	5.6%
Federal Funds	5,044,267	4,878,648	(165,619)	47.8%
Total Funds	<u>\$ 10,356,322</u>	<u>\$ 10,208,606</u>	<u>\$ (147,716)</u>	<u>100.0%</u>
Percent Increase			-1.4%	

Present Law Adjustments

-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				228,637					231,314
Vacancy Savings				(85,449)					(85,553)
Inflation/Deflation				7,046					7,062
Fixed Costs				126,674					(140,969)
Total Statewide Present Law Adjustments				\$276,908					\$11,854
Grand Total All Present Law Adjustments				\$276,908					\$11,854

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	172.03	17.00	14.00	203.03	17.00	14.00	203.03	203.03
Personal Services	7,272,990	1,488,080	655,241	9,416,311	1,489,512	653,326	9,415,828	18,832,139
Operating Expenses	13,059,322	1,817,503	3,000,644	17,877,469	1,960,991	2,562,242	17,582,555	35,460,024
Equipment	105,663	952,619	0	1,058,282	1,421,209	0	1,526,872	2,585,154
Capital Outlay	0	0	0	0	0	0	0	0
Grants	7,154,994	7,055,377	(588,826)	13,621,545	6,501,776	(588,576)	13,068,194	26,689,739
Benefits & Claims	265,239,721	22,865,407	(1,158,622)	286,946,506	40,913,239	(1,875,913)	304,277,047	591,223,553
Transfers	0	0	0	0	0	0	0	0
Debt Service	17,881	0	51,988	69,869	0	0	17,881	87,750
Total Costs	\$292,850,571	\$34,178,986	\$1,960,425	\$328,989,982	\$52,286,727	\$751,079	\$345,888,377	\$674,878,359
General Fund	65,202,469	6,346,904	(7,577,453)	63,971,920	10,926,657	(8,137,892)	67,991,234	131,963,154
State/Other Special	4,034,013	2,029,113	4,562,719	10,625,845	2,073,114	4,672,601	10,779,728	21,405,573
Federal Special	223,614,089	25,802,969	4,975,159	254,392,217	39,286,956	4,216,370	267,117,415	521,509,632
Total Funds	\$292,850,571	\$34,178,986	\$1,960,425	\$328,989,982	\$52,286,727	\$751,079	\$345,888,377	\$674,878,359

Program Description

The purpose of the Health Policy and Services Division (HPSD) is to improve and protect the health and safety of Montanans. The division provides a wide range of preventive, primary, acute care, and public health services to individuals and communities. Services are provided through a broad range of private and public providers, including physicians, public health departments, clinics, and hospitals. The division administers public health programs including, but not limited to clinical and environmental laboratory services, Women's, Infants and Children's Special Nutrition Program (WIC), Maternal and Child Public Health Services, Immunization Programs, STD/HIV prevention, Food and Consumer Safety, Emergency Medical Services, Family Planning, chronic disease prevention, Bioterrorism and Hospital Disaster Preparedness, acute and primary care components of the Medicaid Program and the Children's Health Insurance Program (CHIP) and services for children with special health care needs.

Public health is administered at both the state level and at the local level through contract arrangements with local public health and other health service agencies. The division contracts with over 700 non-profit providers for the delivery of health care services. Medicaid is a voluntary state/federal partnership to provide and finance services to the aged, blind, disabled, or low-income families.

The division administers CHIP as a separate health insurance program and contracts with an insurance plan to provide medical services. CHIP dental and eyeglasses benefits are provided by the department.

Program Narrative

Health Policy & Services Division Major Budget Highlights	
○	Total funds increase \$88 million over the biennium compared to the fiscal 2002 base budget, with a net increase of \$1 million general fund and funding for 31.00 new FTE • Medicaid caseload growth adds \$64 million total funds, including \$17 million general fund • Bioterrorism federal grant increases add \$20 million and fund 15.50 new FTE • Other federal categorical grant increases add \$7 million and fund 15.00 new FTE

- Medicaid provider rate reductions, service limitations, and eligibility changes reduce total funds \$20 million, including \$5 million general fund
- Funding switch to enact I-146 (tobacco settlement fund allocation) reduces general fund by \$8.3 million and increases state special revenue by a like amount
 - \$5.5 million offsets CHIP general fund expenditures
 - \$2.6 million proposed to be used as Medicaid match
- Program reductions and eliminations reduce \$1.4 million general fund
 - Montana Initiative for the Abatement of Mortality in Infants (MIAMI), poison control, end stage renal assistance

Major LFD Issues

- Potential for provider withdrawal from Medicaid program due to service limitations and rate reductions
- Use of \$2.6 million state special revenue tobacco settlement revenue directed to CHIP by I-146 for Medicaid match not allowed by I-146
 - Would require an amendment to statute if executive proposal adopted
- Potential to refinance MIAMI services at a lower general fund cost than base budget funding of \$567,128 as alternative to elimination of program
- Statutory changes needed if the legislature approves the Executive Budget to:
 - Eliminate End Stage Renal Disease program
 - Eliminate requirement to contract with local MIAMI programs
 - Specifically allow elimination of optional Medicaid services by DPHHS subject to appropriation availability

The HPSD 2005 biennium budget request increases \$59 million total funds, including \$2 million general fund, from the 2003 biennium to the 2005 biennium budget request and includes funding for a net increase of 31.00 FTE. This increase is markedly lower than those in the previous two biennia. For instance, the 2003 biennium HPSD executive request was \$126 million total funds, including \$18 million general fund higher than the 2001 biennium. The 2005 biennium request is about 10 percent greater than base budget expenditures plus the fiscal 2003 appropriation, while the 2003 biennium request grew 20 percent above the comparable 2001 biennium funding. Figure 33 compares the HPSD 2003 biennium budget compared to the 2005 biennium request.

Present law adjustments add \$85 million, including \$17 million general fund and funding for 17.00 FTE. New proposals add \$3 million total funds, but include a reduction of \$16 million general fund, nearly offsetting present law increases in general fund. New proposals include federal grant funding for a net increase of 14.00 FTE.

New proposals, due primarily to an \$8 million fund switch in the CHIP program and changes to Medicaid eligibility, reduce the Executive Budget general fund request for fiscal 2004 to about \$1 million less than the base budget general fund expenditures, an occurrence so rare that it may have never happened since the state started its Medicaid program.

The major increases in the executive request are:

- \$64 million net increase in total funds for Medicaid caseload increases, including \$17 million general fund, which is offset by reductions of \$20 million total funds, (including \$5 million general fund) due to provider rate reductions, service limitations, and eligibility changes
- \$20 million in federal funds, including funding for 15.50 FTE, for bioterrorism
- \$7 million in federal funds, including funding for 15.00 FTE, for several categorical grant increases for such purposes as breast and cervical cancer screening program, asbestos screening, environmental health tracking, obesity prevention, immunization, diabetes, epidemiology, cardiovascular disease, and family planning

The most significant general fund reductions, other than Medicaid program changes, include:

- An \$8.2 million funding switch that reduces general fund match for the CHIP program and increases tobacco settlement state special revenue due to passage of I-146
- \$1.4 million in program eliminations including MIAMI, poison control, and assistance for a limited number of persons in end stage renal failure
- \$0.6 million in program reductions for the public health laboratory, family planning, and AIDS/HIV services

Figure 33
2003 Biennium Compared to 2005 Biennium
Health & Policy Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	172.00	203.03	31.03	
Personal Services	\$ 14,826,867	\$ 18,832,139	\$ 4,005,272	6.8%
Operating Costs	29,937,641	35,460,024	5,522,383	9.3%
Equipment	533,249	2,585,154	2,051,905	3.5%
Grants	14,141,316	26,689,739	12,548,423	21.2%
Benefits & Clams	556,231,704	591,323,553	35,091,849	59.2%
Debt Service	32,058	87,750	55,692	0.1%
Total Costs	\$ 615,702,835	\$ 674,978,359	\$ 59,275,524	100.0%
General Fund	\$ 130,348,155	\$ 131,963,154	\$ 1,614,999	2.7%
State Special	11,886,403	21,505,573	9,619,170	16.2%
Federal Funds	473,468,277	521,509,632	48,041,355	81.0%
Total Funds	\$ 615,702,835	\$ 674,978,359	\$ 59,275,524	100.0%
Percent Increase				9.6%

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Health Policy & Services Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 65,202,469	22.3%	\$ 63,971,920	19.4%	\$ 67,991,234	19.7%
02053 Medicaid Nursing Home Match	717,525	0.2%	842,525	0.3%	842,525	0.2%
02059 Emt Certification	34,639	0.0%	34,639	0.0%	34,639	0.0%
02142 Medicaid Third Party Revenue	585,729	0.2%	585,729	0.2%	585,729	0.2%
02199 Dhes Food & Consumer	39,942	0.0%	44,192	0.0%	44,442	0.0%
02298 Baby Your Baby	9,526	0.0%	9,526	0.0%	9,526	0.0%
02366 Public Health Laboratory	1,416,738	0.5%	1,844,746	0.6%	1,885,986	0.5%
02367 Chem Lab Dphhs	528,421	0.2%	626,158	0.2%	576,931	0.2%
02379 02 Indirect Activity Prog 07	82,861	0.0%	84,099	0.0%	84,099	0.0%
02462 Food/Lodging License	385,159	0.1%	389,409	0.1%	389,659	0.1%
02531 Chip Program	882	0.0%	-	-	-	-
02679 School Health Educator Act	-	-	85,284	0.0%	85,101	0.0%
02789 Chip/Mcha Tobacco Settlement Fund	-	-	4,096,947	1.2%	4,258,500	1.2%
02987 Tobacco Interest (Real Fund)	232,591	0.1%	1,982,591	0.6%	1,982,591	0.6%
03004 Ems Data Injury	201,231	0.1%	238,686	0.1%	228,686	0.1%
03020 Ph Workforce Development	-	-	94,943	0.0%	94,876	0.0%
03026 Family Planning Title X	1,101,844	0.4%	1,353,807	0.4%	1,217,427	0.4%
03027 Wic (Women, Infants & Children)	14,139,979	4.8%	14,141,175	4.3%	14,141,099	4.1%
03030 Health Prevention & Services	901,517	0.3%	1,044,909	0.3%	1,046,971	0.3%
03031 Maternal & Child Health	2,590,976	0.9%	2,817,411	0.9%	2,817,338	0.8%
03074 Obesity Prevention	-	-	417,510	0.1%	417,232	0.1%
03159 Tuberculosis Grant	153,346	0.1%	152,986	0.0%	153,485	0.0%
03239 Chronic Disease Fed Cat#13-283	68,029	0.0%	107,708	0.0%	107,562	0.0%
03258 Diabetes Control	642,333	0.2%	658,169	0.2%	658,566	0.2%
03273 Primary Care Services	126,497	0.0%	110,030	0.0%	109,947	0.0%
03274 Ryan White Act, Title I	833,420	0.3%	833,420	0.3%	833,420	0.2%
03317 Ems - Highway Traffic Safety	65,344	0.0%	-	-	-	-
03321 Montana Lead Poisoning Prev	65,619	0.0%	-	-	-	-
03336 Food Inspection Program	36,096	0.0%	44,096	0.0%	44,096	0.0%
03337 Mt Central Tumor Registry	87,064	0.0%	169,581	0.1%	169,142	0.0%
03357 Healthy Child	125,751	0.0%	149,910	0.0%	150,264	0.0%
03362 Data Integration	125,660	0.0%	138,161	0.0%	138,110	0.0%
03368 Trauma System Development	24,955	0.0%	45,000	0.0%	45,000	0.0%
03370 Epi & Lab Surveillance E. Coli	233,456	0.1%	196,304	0.1%	196,238	0.1%
03371 Ficmr	82,817	0.0%	-	-	-	-
03383 Search Grant	69,300	0.0%	152,000	0.0%	152,000	0.0%
03426 Child Health Insurance	11,617,547	4.0%	11,734,065	3.6%	11,719,177	3.4%
03429 Birth Defects Surveillance	53,368	0.0%	150,000	0.0%	150,000	0.0%
03580 93.778 - Med Adm 50%	2,543,515	0.9%	3,101,575	0.9%	2,957,250	0.9%
03582 93.778 - Med Ben 100%	15,590,985	5.3%	16,730,585	5.1%	17,330,471	5.0%
03583 93.778 - Med Ben Fmap	167,033,615	57.0%	181,997,859	55.3%	194,425,500	56.2%
03596 03 Indirect Activity Prog 07	284,306	0.1%	1,389,351	0.4%	1,388,946	0.4%
03607 Cardiovascular Disease	260,833	0.1%	240,728	0.1%	240,502	0.1%
03668 Minority Health Assessment	21,928	0.0%	-	0.0%	-	0.0%
03681 6901-Mt Fd Safe Adv Cncl93.103	2,701	0.0%	2,701	0.0%	2,701	0.0%
03689 6901 Bioter Hosp Preparedness	-	0.0%	2,824,154	0.9%	2,824,727	0.8%
03690 6901-Rape Prev & Educ 93.126	-	0.0%	77,521	0.0%	77,521	0.0%
03929 Seroprevalence/Surveillance	60,267	0.0%	60,267	0.0%	60,267	0.0%
03936 Vaccination Program	619,796	0.2%	924,050	0.3%	924,056	0.3%
03937 Std Program	259,162	0.1%	270,511	0.1%	270,468	0.1%
03938 Aids Fed. Cat. #13.118	1,273,850	0.4%	1,305,337	0.4%	1,306,894	0.4%
03947 Breast & Cervical Cancer Prev.	1,040,994	0.4%	2,034,562	0.6%	2,034,714	0.6%
03959 Bioterrorism	455,131	0.2%	7,811,490	2.4%	7,811,253	2.3%
03969 Bunker Hill Project	140,601	0.0%	140,601	0.0%	140,601	0.0%
03998 Fetal Alcohol Syndrome	680,256	0.2%	731,054	0.2%	730,908	0.2%
Grand Total	\$ 292,850,571	100.0%	\$ 328,989,982	100.0%	\$ 345,888,377	100.0%

The division is funded from general fund, state special revenue and federal funds. The table on the previous page shows the fiscal 2002 base budget funding compared to the Executive Budget request for the 2005 biennium by specific source.

General fund support declines from 22 percent of the base budget to 20 percent of the 2005 biennium budget request. The reduction is due primarily to funding switches of \$8 million over the biennium that move general fund support for CHIP to tobacco settlement state special revenue per the statutory initiative passed by voters during the November 2002 election (I-146), increases in federal funding for bioterrorism and other functions, and a reduction in the state matching rate for Medicaid.

The biggest share of general fund provides matching funds for the Medicaid programs administered by HPSD - about \$131 million (99 percent) of the \$132 million general fund request for the 2005 biennium. After deducting for Medicaid state match, a net of \$1 million, or 1.0 percent of the division general fund request, supports other programs and functions.

During the 2003 biennium, general fund supported a share of the state match requirement for the Maternal Child Health (MCH) block grant and the following programs and functions: 1) the MIAMI project; 2) family planning and public health lab functions; and 3) the End State Renal Program. Continuation of these general fund functions is eliminated in the Executive Budget.

State special revenue rises from 1.4 percent of base budget funding to 3.2 percent of the 2005 biennium budget request. The primary change is due to the CHIP funding switch discussed previously. Several state special revenue sources support \$6.8 million in state Medicaid match over the biennium with the most significant sources being interest income from the constitutional tobacco settlement trust and income allocated by 1-146, and revenue from the county nursing home Medicaid intergovernmental transfer. Other sources of state special revenue are fee income from emergency medical services (EMS) training and county funds for food and consumer safety functions.

Federal funding rises slightly in the 2005 biennium request (77.0 percent) from the base budget (76.0 percent). Federal funds support: a share of Medicaid and CHIP administrative and service costs and public health programs, including prevention programs. HPSD also administers two federal block grants, the MCH grant and the Preventive Health Block Grant.

The most significant federal funding source is Medicaid funds, which decline from 63.0 percent of the division funding in the base budget year to 61.0 percent in fiscal 2005. The second most significant source is the grant for the WIC program with 4.0 percent of total division funding in fiscal 2005, followed by federal CHIP grant funds with 3.0 percent, and bioterrorism funding with 2.0 percent.

Maternal Child Health Block Grant

Montana receives a \$2.6 million MCH block grant annually. Federal regulations specify that: 1) not more than 10 percent of the MCH grant may be used for administering the program; 2) at least 30 percent of the MCH grant must be used for preventive and primary services for children; and 3) at least 30 percent must be used for children with special needs. The state must conduct a comprehensive statewide assessment of MCH needs every 5 years. The MCH grant requires that every \$4 of block grant funds must be matched with \$3 dollars of state or local funds. Entities that receive allocations from the MCH grant provide the required match. The state must maintain the level of state funding provided for MCH programs in fiscal 1989 - \$485,480.

LFD COMMENT

The Executive Budget reduces the state match for the MCH block by \$0.6 million general fund each year of the 2005 biennium. DPHHS staff indicate that counties have reported the amount needed for the difference, and it is anticipated that that county funding will continue to be: a) adequate to cover the required match amount; and b) accepted by the federal government as substitute for state match. If either of those conditions is not met, Montana could lose the entire MCH block grant. Figure 34 shows how the grant is allocated in the Executive Budget.

Figure 34

Allocation of MCH Block Grant Compared to Grant Amount

Function	Fiscal 2004	Fiscal 2005	Percent of Total
FCH Admin	\$ 1,517,510	\$ 1,517,224	54%
Children's Special Health Services	845,017	845,111	30%
MIAMI/Perinatal	307,977	307,623	11%
Family Planning	146,907	147,380	5%
Total Allocated	<u>\$ 2,817,411</u>	<u>\$ 2,817,338</u>	100%
Current Grant Amount	<u>\$ 2,615,865</u>	<u>\$ 2,615,865</u>	
Grant Over (Under) Budget Request	<u>\$ (201,546)</u>	<u>\$ (201,473)</u>	-7%

Figure 35

Allocation of Preventive Health Block Grant Compared to Grant Amount

Function	Fiscal 2004	Fiscal 2005	Percent of Total
Health Systems Bur.	\$ 415,597	\$ 416,586	40%
Emergency Med. Services	248,686	249,759	24%
Family Planning	152,468	152,468	15%
Chronic Disease	118,232	118,232	11%
Sexual Assault	81,807	81,807	8%
Immunization	20,023	20,023	2%
FCH Admin	8,096	8,096	1%
Total Allocated	<u>\$ 1,044,909</u>	<u>\$ 1,046,971</u>	100%
Current Grant Amount	<u>\$ 966,283</u>	<u>\$ 966,283</u>	
Grant Over (Under) Budget Request	<u>\$ (78,626)</u>	<u>\$ (80,688)</u>	-8%

**LFD
ISSUE**

The fiscal 2002 MCH block grant was \$2,615,865 and DPHHS submitted a grant application for the same amount for fiscal 2003. The amount of MCH block grant for the 2005 biennium is unknown, but if it remains at the same level, it will be about 7 percent below the amount included in the executive budget, which is \$2,817,441. Figure ____ does not include an allocation of MCH block grant funds for indirect costs, so the shortfall potentially could be greater than shown. The legislature may wish to ask DPHHS where reductions would be made if the grant were below the level anticipated in the budget.

Preventive Health Block Grant

Montana received \$966,283 for the Preventive Health Block Grant in the base year. Figure 35 shows the executive request for the 2005 biennium. No more than 10.0 percent of the block grant can be spent for cost allocated administrative functions (estimated at 5.4 percent in the 2003 biennium). Some of the funds must be used for sexual assault and rape prevention programs. Funds can also be used to provide seed money for priority health programs that can be funded from other sources later, and state-identified health problems and public health infrastructure for which there is no other funding source. An advisory committee makes recommendations on the allocation of the Preventive Health Block Grant using criteria to rank the size and seriousness of a health problem, the effectiveness of intervention, and the availability of funding from other sources.

**LFD
ISSUE**

The annual amount included in the Executive Budget request for the Preventive Health Block Grant in the 2005 biennium is about \$80,000 more than the annual grant amount expected by DPHHS. The legislature may wish to request that DPHHS indicate how the amounts in Figure 35 would change to accommodate a lower level of Preventive Health Block Grant.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				1,043,495						1,047,585
Vacancy Savings				(332,661)						(332,824)
Inflation/Deflation				11,366						13,927
Fixed Costs				78,628						95,393
Total Statewide Present Law Adjustments				\$800,828						\$824,081
DP 39 - Distance Learning Coordinator Position	1.00	0	0	46,583	46,583	1.00	0	0	46,451	46,451
DP 41 - Primary Care Recruitment of Local Medical Provider	0.50	0	0	0	0	0.50	0	0	0	0
DP 50 - Medicaid Caseload Adjustment 2004 and 2005	0.00	5,904,545	1,750,000	12,585,558	20,240,103	0.00	10,231,918	1,750,000	24,921,832	36,903,750
DP 56 - Medicare Buy-In Caseload Adjustment for 2004-2005	0.00	402,923	0	1,082,781	1,485,704	0.00	625,840	0	1,644,163	2,270,003
DP 57 - Enhance SEARCH Program	0.00	0	0	82,700	82,700	0.00	0	0	82,700	82,700
DP 60 - FDA Contract Increase	0.00	0	0	8,000	8,000	0.00	0	0	8,000	8,000
DP 64 - Bioterrorism Preparedness	15.50	0	0	10,181,468	10,181,468	15.50	0	0	10,181,296	10,181,296
DP 68 - IHS Caseload Adjustment	0.00	0	0	1,139,600	1,139,600	0.00	0	0	1,739,486	1,739,486
DP 70 - Increase Laboratory Supply Budget	0.00	0	64,000	0	64,000	0.00	0	98,000	0	98,000
DP 72 - Increase for Utilization Review Contract	0.00	32,500	0	97,500	130,000	0.00	33,240	0	99,720	132,960
Total Other Present Law Adjustments										
	17.00	\$6,339,968	\$1,814,000	\$25,224,190	\$33,378,158	17.00	\$10,890,998	\$1,848,000	\$38,723,648	\$51,462,646
Grand Total All Present Law Adjustments					\$34,178,986					\$52,286,727

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 37 - Family Planning Supplemental Authority										
07	0.50	0	0	251,963	251,963	0.50	0	0	115,583	115,583
DP 40 - Obesity Prevention Program										
07	2.00	0	0	417,510	417,510	2.00	0	0	417,232	417,232
DP 42 - Immunization Increase										
07	0.00	0	0	300,000	300,000	0.00	0	0	300,000	300,000
DP 45 - Behavior Risk Factor Surveillance Coordinator										
07	1.00	0	0	53,398	53,398	1.00	0	0	53,252	53,252
DP 48 - Fetal Alcohol Syndrome Coordinator										
07	1.00	0	0	50,798	50,798	1.00	0	0	50,652	50,652
DP 49 - Pay Off Wells Fargo Loan for Equipment										
07	0.00	0	51,988	0	51,988	0.00	0	0	0	0
DP 51 - WIC Administrative Support										
07	1.00	0	0	0	0	1.00	0	0	0	0
DP 52 - Medicaid Breast & Cervical Cancer Treatment Prog										
07	0.00	207,174	0	339,055	546,229	0.00	208,378	0	337,851	546,229
DP 53 - Montana Breast & Cervical Health Program										
07	1.00	0	0	939,750	939,750	1.00	0	0	939,618	939,618
DP 54 - Epidemiology Support for Diabetes Program										
07	0.50	0	0	27,506	27,506	0.50	0	0	27,434	27,434
DP 55 - School Health Coordinator										
07	1.50	0	85,284	0	85,284	1.50	0	85,101	0	85,101

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 65 - School Services Contract and Program Monitor										
07	1.00	(113,257)	0	8,178,235	8,064,978	1.00	(277,648)	0	8,026,626	7,748,978
DP 66 - Medicaid Pharmacy Audit										
07	0.00	(23,341)	0	(275,461)	(298,802)	0.00	(54,862)	0	(356,640)	(411,502)
DP 67 - Laboratory Equipment Replacement										
07	0.00	0	195,000	0	195,000	0.00	0	195,000	0	195,000
DP 74 - County Public Health Department Administrative IGT										
07	0.00	0	125,000	125,000	250,000	0.00	0	125,000	125,000	250,000
DP 237 - Cardiovascular Disease 1.5 FTE										
07	1.50	0	0	54,128	54,128	1.50	0	0	53,997	53,997
DP 240 - Eliminate ESRD Program										
07	0.00	(100,000)	0	0	(100,000)	0.00	(100,000)	0	0	(100,000)
DP 242 - Reduce Optional Services										
07	0.00	(250,000)	0	(671,829)	(921,829)	0.00	(250,000)	0	(656,783)	(906,783)
DP 244 - Limit Physicians Visits to 10 Per Year										
07	0.00	(700,561)	0	(1,882,629)	(2,583,190)	0.00	(760,809)	0	(1,998,745)	(2,759,554)
DP 245 - Eliminate Posion Control System										
07	0.00	(38,954)	0	0	(38,954)	0.00	(38,954)	0	0	(38,954)
DP 246 - Reduce Tumor Registry General Fund Support										
07	0.00	(26,774)	0	0	(26,774)	0.00	(26,774)	0	0	(26,774)
DP 247 - Eliminate General Fund Support for Public Health Lab										
07	0.00	(185,374)	0	0	(185,374)	0.00	(185,374)	0	0	(185,374)
DP 248 - Reduce Epidemiology and Surveillance General Fund										
07	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
DP 249 - Eliminate AIDS Prevention General Fund										
07	0.00	(42,000)	0	0	(42,000)	0.00	(42,000)	0	0	(42,000)
DP 250 - Eliminate MIAMI/Perinatal General Fund Support										
07	0.00	(567,128)	0	0	(567,128)	0.00	(567,128)	0	0	(567,128)
DP 251 - Eliminate General Fund Support For Farmers Market										
07	0.00	(12,828)	0	0	(12,828)	0.00	(12,828)	0	0	(12,828)
DP 252 - Eliminate Family Planning General Fund Support										
07	0.00	(25,948)	0	0	(25,948)	0.00	(25,948)	0	0	(25,948)
DP 253 - Fund Switch For The CHIP Program										
07	0.00	(4,096,947)	4,096,947	0	0	0.00	(4,258,500)	4,258,500	0	0
DP 254 - Reduce Provider Reimbursement										
07	0.00	(1,263,945)	0	(3,396,621)	(4,660,566)	0.00	(1,404,725)	0	(3,690,397)	(5,095,122)
DP 255 - Environmental Health Tracking										
07	2.00	0	0	510,866	510,866	2.00	0	0	510,866	510,866
DP 256 - Libby Asbestos Screening										
07	2.00	0	0	590,000	590,000	2.00	0	0	590,000	590,000
DP 257 - Transportation Program Changes										
07	0.00	(82,888)	0	(222,746)	(305,634)	0.00	(86,038)	0	(226,033)	(312,071)
DP 258 - Pharmacy Program Changes										
07	0.00	(82,372)	0	(221,360)	(303,732)	0.00	(82,372)	0	(216,402)	(298,774)
DP 259 - Reduce HPSP Administration										
07	0.00	(35,000)	0	0	(35,000)	0.00	(35,000)	0	0	(35,000)
DP 260 - Property Eligibility Exclusion Medicaid Reduction										
07	0.00	(92,101)	0	(247,504)	(339,605)	0.00	(92,101)	0	(241,961)	(334,062)
DP 261 - Rape Prevention										
07	0.00	0	0	77,521	77,521	0.00	0	0	77,521	77,521
DP 282 - FTE Reduction										
07	(1.00)	(20,209)	0	(22,421)	(42,630)	(1.00)	(20,209)	0	(22,301)	(42,510)
DP 8063 - Pool & Spa Exemptions (Requires Legislation)										
07	0.00	0	8,500	0	8,500	0.00	0	9,000	0	9,000
Total	14.00	(\$7,577,453)	\$4,562,719	\$4,975,159	\$1,960,425	14.00	(\$8,137,892)	\$4,672,601	\$4,216,370	\$751,079

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Sub-Program Details

DIVISION ADMINISTRATION 01

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	9.00	0.00	4.00	13.00	0.00	4.00	13.00	13.00
Personal Services	462,697	63,558	198,278	724,533	62,455	197,620	722,772	1,447,305
Operating Expenses	276,370	5,075	867,588	1,149,033	5,589	868,246	1,150,205	2,299,238
Equipment	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$739,067	\$68,633	\$1,065,866	\$1,873,566	\$68,044	\$1,065,866	\$1,872,977	\$3,746,543
General Fund	199,425	32,811	(35,000)	197,236	32,627	(35,000)	197,052	394,288
State/Other Special	82,861	1,238	0	84,099	1,238	0	84,099	168,198
Federal Special	456,781	34,584	1,100,866	1,592,231	34,179	1,100,866	1,591,826	3,184,057
Total Funds	\$739,067	\$68,633	\$1,065,866	\$1,873,566	\$68,044	\$1,065,866	\$1,872,977	\$3,746,543

Division administration provides the overall management and direction for the division and administers special projects. The administrative function is supported by general fund, state special revenue, and federal funds. Division administration is cost allocated among programs based on a federally approved cost allocation plan and also includes activities that are directly funded by special federal grants.

The 2005 biennium budget request is about \$1.1 million higher annually compared to base budget expenditures due to two new proposals for federal grant funds for asbestos screening and environmental health tracking. General fund declines from 27.0 percent of base budget funding to 11.0 percent of the 2005 biennium request, due to the significant increase in federal funds and due to an unspecified general fund reduction.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				85,486					84,337
Vacancy Savings				(21,928)					(21,882)
Inflation/Deflation				916					1,022
Fixed Costs				4,159					4,567
Total Statewide Present Law Adjustments				\$68,633					\$68,044
Grand Total All Present Law Adjustments				\$68,633					\$68,044

Executive Present Law Adjustments

The only present law adjustments in the Division Administration program are statewide adjustments for pay plan increases, fixed costs and inflation. Such adjustments, including vacancy savings, total about \$137,000 over the biennium, and are funded 48 percent from the general fund.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 255 - Environmental Health Tracking										
01	2.00	0	0	510,866	510,866	2.00	0	0	510,866	510,866
DP 256 - Libby Asbestos Screening										
01	2.00	0	0	590,000	590,000	2.00	0	0	590,000	590,000
DP 259 - Reduce HPSD Administration										
01	0.00	(35,000)	0	0	(35,000)	0.00	(35,000)	0	0	(35,000)
Total	4.00	(\$35,000)	\$0	\$1,100,866	\$1,065,866	4.00	(\$35,000)	\$0	\$1,100,866	\$1,065,866

New Proposals

DP 255 - Environmental Health Tracking - This proposal would establish authority for Environmental Health Tracking through a five-year cooperative agreement between the National Center for Environmental Health at the Centers for Disease Control and Prevention and DPHHS. The proposal is supported by a five-year federal grant of \$510,866 per year. Montana was 1 of 10 states to receive the federal award. HB 582, passed by the 2001 legislature, directed the DPHHS to determine the feasibility of establishing a tracking system for chronic diseases related to environmental sources.

Funding would support 2.00 FTE to work with the agency medical officer and consultants from other state agencies and institutions as well as the national center to establish a program linking environmental exposures and chronic diseases with the goal of averting adverse public health exposures.

DP 256 - Libby Asbestos Screening - This proposal would establish and operate a screening and surveillance program in Libby for current and prior residents exposed to asbestos minerals from vermiculite. The federal Agency for Toxic Substances and Disease Registry has granted DPHHS \$590,000 per year for a period of five years. This program would provide screening and surveillance services and would fund 2.00 FTE.

This program would operate year round, rather than summers only as in the current federal program, allowing individuals a greater period of access to the testing. Individuals identified with medical problems would be informed of the test results and referred to a health care facility of their choice. The federal program identified evidence of asbestos related health problems in approximately 18 percent of the 7,307 persons tested.

DP 259 - Reduce HPSD Administration - This proposal would reduce the administrative budget by \$70,000 general fund over the biennium.

LFD ISSUE

DPHHS staff indicates that this reduction will be accomplished by reducing administrative staff support from the equivalent of 3.00 FTE to 1.00 FTE, including a reduction in the level of budgeted FTE by 1.00. However, the decision package does not include the reduced FTE. The legislature may wish to request that DPHHS identify the position that would be eliminated, and if it accepts the executive proposal, include the FTE for reduced funding.

Sub-Program Details

MEDICAID 02

Sub-Program Proposed Budget

Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	26.00	0.00	0.00	26.00	0.00	0.00	26.00	26.00
Personal Services	1,133,340	133,056	8,168	1,274,564	134,739	8,142	1,276,221	2,550,785
Operating Expenses	2,894,471	144,265	455,673	3,494,409	152,390	152,600	3,199,461	6,693,870
Equipment	0	0	0	0	0	0	0	0
Grants	21,549	0	0	21,549	0	0	21,549	43,098
Benefits & Claims	242,233,501	22,865,407	(1,158,622)	263,940,286	40,913,239	(1,875,913)	281,270,827	545,211,113
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$246,282,861	\$23,142,728	(\$694,781)	\$268,730,808	\$41,200,368	(\$1,715,171)	\$285,768,058	\$554,498,866
General Fund	59,630,425	6,433,772	(2,521,500)	63,542,697	10,986,706	(2,920,386)	67,696,745	131,239,442
State/Other Special	1,545,371	1,750,000	125,000	3,420,371	1,750,000	125,000	3,420,371	6,840,742
Federal Special	185,107,065	14,958,956	1,701,719	201,767,740	28,463,662	1,080,215	214,650,942	416,418,682
Total Funds	\$246,282,861	\$23,142,728	(\$694,781)	\$268,730,808	\$41,200,368	(\$1,715,171)	\$285,768,058	\$554,498,866

The Medicaid program administers primary care Medicaid services, including hospital, physician, drugs, durable medical equipment and outpatient therapies. The Medicaid program budget is the most significant program administered by the division, accounting for 82 percent of the 2005 biennium division budget request and 99 percent of the general fund. Within the Medicaid program, direct service costs account for 98 percent of the budget request while total operating and personal services costs comprise 2 percent.

The Medicaid program budget increases primarily due to present law caseload adjustments to account for additional eligible persons, increasing acuity of care, and utilization of services. Present law increases are partially offset by reductions in provider rates, eligibility changes, and other Medicaid programmatic changes.

Present Law Adjustments

Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				185,820					187,574
Vacancy Savings				(52,764)					(52,835)
Inflation/Deflation				10,023					10,167
Fixed Costs				4,242					9,263
Total Statewide Present Law Adjustments				\$147,321					\$154,169
DP 50 - Medicaid Caseload Adjustment 2004 and 2005	0.00	5,904,545	1,750,000	12,585,558	20,240,103	0.00	10,231,918	1,750,000	24,921,832
DP 56 - Medicare Buy-In Caseload Adjustment for 2004-2005	0.00	402,923	0	1,082,781	1,485,704	0.00	625,840	0	1,644,163
DP 68 - IHS Caseload Adjustment	0.00	0	0	1,139,600	1,139,600	0.00	0	0	1,739,486
DP 72 - Increase for Utilization Review Contract	0.00	32,500	0	97,500	130,000	0.00	33,240	0	99,720
Total Other Present Law Adjustments	0.00	\$6,339,968	\$1,750,000	\$14,905,439	\$22,995,407	0.00	\$10,890,998	\$1,750,000	\$28,405,201
Grand Total All Present Law Adjustments				\$23,142,728					\$41,200,368

Executive Present Law Adjustments

DP 50 - Medicaid Caseload Adjustment 2004 and 2005 - Medicaid services cost for the 2005 biennium is projected to increase by \$57 million, including \$16 million general fund, \$4 million state special revenue from the constitutional

tobacco settlement trust interest, and \$38 million federal funds. Medicaid is an entitlement program for all persons who meet the eligibility criteria.

DPHHS uses a complex projection methodology to estimate Medicaid cost changes. Statistics and trends relating to monthly eligibility, type of provider, number of services, cost per service, and health care inflation are taken into account in the projections. Failure to account for changes in caseload could materially misstate the Medicaid base budget in 2004 and 2005.

This proposal reflects projected changes in the eligible population and changes in the acuity level of medical conditions of and treatment for eligible persons. Rate increases are commonly submitted separately as new issues for legislative deliberation.

**LFD
COMMENT**

Projected Medicaid costs began to decline slightly in late fiscal 2002 as increases in the number of eligible persons stabilized. The legislature will review updated projections to determine the appropriation level for services in both DP 50 and DP56 Medicare Buy-in Caseload Adjustments

DP 56 - Medicare Buy-In Caseload Adjustment for 2004-2005 - This request would add \$4 million over the biennium, including \$1 million general fund. The Medicare buy-in allows state Medicaid programs to pay premiums to purchase Medicare coverage for Medicaid recipients who are dually eligible for Medicare and Medicaid. Medicare then covers the cost of most services for individuals with no further Medicaid liability. Medicaid is liable for the costs of non-Medicare covered services, and for co-insurance and deductibles related to services utilized. Prescription drugs are an example of a Medicaid covered service that is not always paid by Medicare.

This request reflects expected increases in the number of persons eligible and premiums for Medicare Part A and Part B. The request is based on the assumption that the number of persons eligible for both Part A and Part B would increase an average of 2 percent, consistent with the increase over the last several years: 411 to 419 persons per month for Part A and 13,721 to 13,995 persons for Part B. Part B monthly premiums are projected to increase from \$50 in fiscal 2002, to \$58.32 in fiscal 2004, and to \$62.99 in fiscal 2005, an increase of 8 percent annually. No increase is projected for Part A premiums.

DP 68 - IHS Caseload Adjustment - This proposal would add \$3 million federal funds for the biennium for Indian Health Services (IHS) caseload increases. The Medicaid IHS program is 100 percent federally funded. The federally mandated program provides payment to IHS providers for services to Native Americans who are also Medicaid eligible.

DPHHS has estimated that IHS will have a caseload increase of 3.5 percent per year over the biennium. Under federal rules, the IHS is considered the payer of last resort. Accordingly, the Medicaid program must provide payment to the IHS or IHS providers for Native Americans who are also on Medicaid. The IHS in Montana is making a concerted effort to identify all Medicaid eligible persons who are also IHS recipients and to bill appropriately for services.

DP 72 - Increase for Utilization Review Contract - This request would add \$197,220 in federal funds and \$65,740 in general fund for the biennium. Contract increases would fund expansion of more intensive clinical case management, and prior authorization of pharmacy services and additional reviews, due to rising numbers of recipients and increased demands for private duty nursing. The current contract requires additional funds for out-of-state prior authorization reviews and retrospective reviews. The current contract will expire during the biennium, requiring a re-bid, which usually results in increases in contracted amounts.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 52 - Medicaid Breast & Cervical Cancer Treatment Prog										
02	0.00	207,174	0	339,055	546,229	0.00	208,378	0	337,851	546,229
DP 65 - School Services Contract and Program Monitor										
02	1.00	(113,257)	0	8,178,235	8,064,978	1.00	(277,648)	0	8,026,626	7,748,978
DP 66 - Medicaid Pharmacy Audit										
02	0.00	(23,341)	0	(275,461)	(298,802)	0.00	(54,862)	0	(356,640)	(411,502)
DP 74 - County Public Health Department Administrative IGT										
02	0.00	0	125,000	125,000	250,000	0.00	0	125,000	125,000	250,000
DP 240 - Eliminate ESRD Program										
02	0.00	(100,000)	0	0	(100,000)	0.00	(100,000)	0	0	(100,000)
DP 242 - Reduce Optional Services										
02	0.00	(250,000)	0	(671,829)	(921,829)	0.00	(250,000)	0	(656,783)	(906,783)
DP 244 - Limit Physicians Visits to 10 Per Year										
02	0.00	(700,561)	0	(1,882,629)	(2,583,190)	0.00	(760,809)	0	(1,998,745)	(2,759,554)
DP 254 - Reduce Provider Reimbursement										
02	0.00	(1,263,945)	0	(3,396,621)	(4,660,566)	0.00	(1,404,725)	0	(3,690,397)	(5,095,122)
DP 257 - Transportation program changes										
02	0.00	(82,888)	0	(222,746)	(305,634)	0.00	(86,038)	0	(226,033)	(312,071)
DP 258 - Pharmacy Program Changes										
02	0.00	(82,372)	0	(221,360)	(303,732)	0.00	(82,372)	0	(216,402)	(298,774)
DP 260 - Property Eligibility Exclusion Medicaid Reduction										
02	0.00	(92,101)	0	(247,504)	(339,605)	0.00	(92,101)	0	(241,961)	(334,062)
DP 282 - FTE Reduction										
02	(1.00)	(20,209)	0	(22,421)	(42,630)	(1.00)	(20,209)	0	(22,301)	(42,510)
Total	0.00	(\$2,521,500)	\$125,000	\$1,701,719	(\$694,781)	0.00	(\$2,920,386)	\$125,000	\$1,080,215	(\$1,715,171)

New Proposals

DP 52 - Medicaid Breast & Cervical Cancer Treatment - This request would add \$1.1 million for the biennium, including \$0.4 million general fund, to provide continued funding for Medicaid services for treatment of breast and cervical cancer for women screened through the Montana Breast and Cervical Health (MBHC) program. The individual must be under 65 years of age, uninsured, and have a family gross income at or below 200 percent of the federal poverty level. Individuals eligible under this program are covered for health care services under the basic Medicaid program for the duration of treatment. Basic Medicaid is the same coverage provided under the FAIM (Families Achieving Independence in Montana) program.

Utilizing year to date expenditures as of January 2002, DPHHS estimates the Medicaid breast and cervical cancer related expenditures will be \$458,136 for fiscal 2002. The MBHC program performed about 2,700 screens in fiscal 2002 and increase to 3,200 in fiscal 2003. It is estimated that under proposed funding for the MBHC that 3,800 screens can be performed in fiscal 2004 and 2005. Utilizing the estimates of the screens that are performed by the MBCH program the Medicaid expenditures are estimated to be \$1,095,000 in fiscal 2004 and 2005. This estimate assumes no increase in provider reimbursement rates or volume of services provided to eligible persons. Breast and cervical cancer services have an enhanced federal Medicaid match rate of 81.08 percent for fiscal 2004 and 80.97 percent for fiscal 2005.

LFD COMMENT

Medicaid services for breast and cervical cancer were implemented by legislative initiative and passage of HB 456 by the 2001 legislature. Section 2(2) of that bill requested that the executive consider funding the ongoing state match for the Medicaid breast and cervical cancer treatment from interest income from the tobacco settlement constitutional trust fund. The legislature could consider funding the state match from the trust income. Tobacco trust income is discussed in the agency narrative.

DP 65 - School Services Contract and Program - This proposal would add \$16.2 million federal authority for a Medicaid school-based services contract, fund 1.00 FTE for a school-based services program monitor, and would include a net savings to the general fund of \$0.4 million over the biennium. The proposal results from a contract study completed in March 2002 to determine potential revenue enhancement possibilities for schools in Montana. The study estimated that

an additional \$7 to \$10 million in annual reimbursement from federal match for Medicaid covered services in Montana public schools. The federal Medicaid reimbursement would replace school funds, freeing up those funds to be used in other areas.

Montana schools are providing services that are eligible for federal Medicaid reimbursement. The Center for Medicare and Medicaid Services (CMS) allows interagency agreements between the state Medicaid agency (DPHHS) and the Montana Office of Public Instruction (OPI) where school districts may certify the nonfederal Medicaid match and receive federal matching funds for the balance of eligible services.

DPHHS and OPI competitively selected a contractor to assist with the program redesign. The firm will develop a process for school districts to claim federal Medicaid reimbursement and certify matching funds for school-based services. In addition, the contractor will assist DPHHS in developing an administrative claiming program and a Medicaid reimbursement program for eligible school services. DPHHS will assume the administration of the program in 2005, with OPI continuing to contract for billing services.

This proposal would fund the contract by shifting general fund used to reimburse education providers from benefits to administrative expenses. This shift would pay for the contract, and 1.00 FTE to monitor the contract and the program. The general fund shifted from benefits to administration in fiscal 2004 is \$178,235, and \$26,626 in fiscal 2005. Net general fund savings are projected to be \$113,258 in fiscal 2004 and \$277,648 in fiscal 2005.

DP 66 - Medicaid Pharmacy Audit - This request would result in total savings of \$710,304 over the biennium including \$78,203 general fund as a result of establishing an in-depth audit program for the Medicaid pharmacy program. Components of the audit program could include pharmacy benefit management, focused investigation audits, in-store audits, desktop audits, and credentialing.

The Medicaid pharmacy benefit is about \$78 million and continues to increase faster than all other health care costs. Pharmacy benefits make up nearly 30.0 percent of Medicaid expenditures. By employing a company that specializes in pharmacy auditing, DPHHS believes it can insure program integrity and create cost savings. Typically, most companies that conduct pharmacy auditing are able to recover at least 0.5.0 percent of total pharmacy expenditures. For Montana Medicaid, an investment of \$250,000 for an auditing contract could potentially recover \$390,000 (based on current drug expenditures).

DP 74 - County Public Health Department Administration - This proposal would add \$0.5 million in federal authority and county funds in the amount necessary to draw down federal Medicaid matching funds for an intergovernmental transfer program for county public health departments. Participating counties would place staff in county public assistance offices and inform all eligible Medicaid recipients under 21 years of age about EPSDT (Early Periodic Screening Diagnosis and Treatment), which is a federally required Medicaid service.

This request assumes that up to five counties would participate in each year of the biennium. The total cost of \$50,000 per county (salary for one professional) would be paid through the transfer. Counties will send DPHHS a check for \$25,000 (50.0 percent of \$50,000). This money would be deposited in a special revenue fund, matched with \$25,000 in federal Medicaid funds, and \$50,000 would be returned to the county.

DP 240 - Eliminate ESRD Program - This proposal would eliminate the \$200,000 general fund support of the End Stage Renal Disease (ESRD) program over the biennium. There are 95 claimants of all ages who receive help with costs for hospital and medical care. In order to be eligible for the assistance from the DPHHS, persons must be diagnosed as having chronic non-reversible kidney disease, and must have incomes below 300 percent of the federal poverty level. All patients on ESRD are also eligible for Medicare with the exception of those waiting for Medicare approval. Medicare does not cover drugs and is considering lowering reimbursement rates. Dialysis is performed three times a week and if patients cannot go to dialysis or get medications it could have a life threatening consequence.

**LFD
ISSUE**

The ESRD program is authorized in statute (Sections 50-44-101 and 102, MCA). The first section states that it is the intent of the legislature "... to insure the establishment of a program for the care and treatment of persons suffering from chronic renal diseases who require lifesaving care and treatment for such renal diseases but who are unable to pay for the services on a continuing basis." The second section requires DPHHS to establish rules to serve those most financially in need and it also specifies that DPHHS "... is not liable to any person for a failure to provide financial assistance to that person under this section if sufficient funds are not appropriated by the legislature."

The legislature may wish to consider eliminating these two code sections if funding for the program is eliminated.

DP 242 - Reduce Optional Services - This proposal would reduce optional Medicaid services for recipients over the age of 21 by \$500,000 general fund, and \$1,328,612 federal funds for the biennium. The department would identify and reduce optional services in an effort to minimize the impact of cost shifting to other programs.

**LFD
ISSUE**

LFD staff has requested that DPHHS specify which optional services it would reduce. Court cases have held that some optional services (such as eyeglasses, hearing aids, and dentures) could not be reduced for certain eligible persons. The legislature may wish to determine whether the optional services that DPHHS would propose to reduce are those that it considers the lowest priority services, and it may wish to consider an amendment to statute to clearly give DPHHS legal authority to reduce optional services. A legislative staff legal analysis concluded that such statutory changes should be made in order to legally reduce such services.

DP 244 - Limit Physicians Visits to 10 Per Year - This proposal would reduce the number of physician visits for SSI (Supplemental Security Income) and TANF recipients to 10 per year and would result in a saving \$5.3 million total funds (\$1.5 million general fund) over the biennium. DPHHS would provide additional physician services if such services are medically necessary. Estimated savings include a reduction of 50.0 percent for additional services and associated implementation costs.

DPHHS would have to implement a prior authorization function to review the medical necessity of services that exceed this limit. The prior authorization function would be an additional administrative function that could be provided under a contract or performed by new FTE with appropriate training.

The proposal impacts 2,297 TANF and 6,012 SSI clients and would result in the elimination of approximately 9,122 visits for TANF clients and 30,436 visits for SSI clients. Under this proposal the client would be responsible for 100.0 percent of provider charges for any services that exceed the limit that are not medically necessary.

**LFD
ISSUE**

This proposal is one of several cost reduction measures proposed in the Executive Budget that may impact provider participation in the Montana Medicaid program. This issue is discussed in greater detail in the following proposed DP 254.

DP 254 - Reduce Provider Reimbursement - This decision package would reduce the payments made to Medicaid providers, saving \$2.7 million general fund and \$7.1 million federal funds for the biennium. The proposal would reduce provider reimbursements by 1.87 percent.

**LFD
ISSUE**

During the 2003 biennium, and potentially again on January 1, 2003, HPSP implemented provider rate reductions in order to avoid a supplemental appropriation. DPHHS staff indicated that Medicaid caseload estimates for the 2005 biennium used provider rate projections as if the rates had not been reduced and the 1.87 percent reduction was imposed after estimates were completed. This estimating methodology would allow DPHHS to raise provider rates above levels being paid in fiscal 2002 and fiscal 2003, potentially giving a rate increase without expressly informing the legislature. LFD staff have requested that HPSP tell the legislature how rates will be established beginning in the 2005 biennium and what types of increases might be implemented and the amount of any such increases.

**LFD
COMMENT**

Documentation submitted by DPHHS to the Office of Budget and Program Planning notes that the consequences or impact of the proposed elimination or reduction might be that health care providers may no longer provide services to needy Medicaid eligible Montanans. Provider rate reductions, coupled with impact of other Medicaid cuts in eligibility and services, puts additional strain on the mandatory services under the Medicaid program, namely physician and hospital services. In fiscal 2002, the 2.6 percent rate reduction resulted in some providers withdrawing from the Medicaid program. However, most providers have continued to provide services for clients. If providers withdraw from the program, it could create an access problem for the state.

Plaintiffs in North Carolina recently prevailed in a lawsuit alleging that state Medicaid rates were so low that most of dentists in the state would not see Medicaid patients - 16 percent of all North Carolina dentists participated in the Medicaid program and some limited the number of Medicaid patients they would see. The U.S. Supreme Court declined to hear an appeal of the case on October 21, 2002, and North Carolina is seeking to get the case dismissed in the district court on other grounds.

Federal Medicaid laws require states to establish rates at levels adequate to attract a sufficient number of providers to participate in the program. However, there is nothing in federal rule that provides guidance on how to determine if rates are adequate. In previous rulings, courts have held that if Medicaid clients have the same access to health care providers as other health care clients, access is adequate, and therefore, rates are adequate.

DP 257 - Transportation Program Changes - This proposal would reduce \$168,926 general fund and \$448,779 of federal funds over the biennium due to changes in the reimbursement rate for mileage for Medicaid transportation. According to ARM 37.862402, coverage of transportation is only available to obtain necessary medical services covered by the Medicaid program. If approved, the mileage rate would be reduced from 34 cents to 13 cents per mile and a portion of the savings would be used to increase the meal and lodging per diem.

**LFD
COMMENT**

DPHHS has the authority to make this change without legislative approval since travel reimbursement rates are established by department rule. Conversely, if the legislature were to deny this request, it would amend statute and establish the Medicaid reimbursement rate in statute to prevent DPHHS from changing it.

DP 258 - Pharmacy Program Changes - This proposal would reduce \$164,744 general fund and \$437,762 federal funds over the biennium as a result of administrative changes to the Medicaid pharmacy program. Changes include: procedures regarding prior authorization; system claim edits; case management; and script quantity policy. While these initiatives should not result in a loss of any benefits, the changes may cause inconvenience to clients or medical staff until they get acclimated to the new system.

DP 260 - Property Eligibility Exclusion Medicaid - This proposal would reduce \$184,202 general fund and \$489,465 federal funds over the biennium by changing the way property is counted when determining eligibility for Medicaid. These changes are discussed in the agency overview since the changes affect Medicaid budget requests in four divisions.

DP 282 - FTE Reduction - This proposal would eliminate 1.00 FTE for a savings of \$40,418 general fund and \$44,722 federal funds for the biennium.

Sub-Program Details

HEALTH SYSTEMS 03

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	32.39	1.50	6.00	39.89	1.50	6.00	39.89	39.89
Personal Services	1,331,925	282,487	276,396	1,890,808	282,805	275,637	1,890,367	3,781,175
Operating Expenses	2,508,526	71,917	1,150,168	3,730,611	73,891	1,150,168	3,732,585	7,463,196
Grants	174,674	0	0	174,674	0	0	174,674	349,348
Benefits & Claims	350	0	0	350	0	0	350	700
Total Costs	\$4,015,475	\$354,404	\$1,426,564	\$5,796,443	\$356,696	\$1,425,805	\$5,797,976	\$11,594,419
General Fund	643,922	(41,023)	(65,728)	537,171	(31,151)	(65,728)	547,043	1,084,214
State/Other Special	34,639	0	0	34,639	0	0	34,639	69,278
Federal Special	3,336,914	395,427	1,492,292	5,224,633	387,847	1,491,533	5,216,294	10,440,927
Total Funds	\$4,015,475	\$354,404	\$1,426,564	\$5,796,443	\$356,696	\$1,425,805	\$5,797,976	\$11,594,419

The Health Systems Bureau is responsible for establishing state public health policy and implementing state programs that promote the health of all Montanans by controlling and preventing chronic diseases and injuries. The bureau:

- Emphasizes development and maintenance of statewide systems to improve delivery of public health programs, chronic disease prevention, health promotion, injury prevention, primary care, and emergency medical services
- Manages statewide programs in breast and cervical cancer screening, diabetes control, cardiovascular disease prevention and tumor registry
- Exercises responsibility for a statewide emergency medical services and trauma system
- Licenses ambulances, trains emergency medical technicians/first responders, monitors Montana hospital trauma response, and operates the poison control center
- Administers health planning functions including the Montana Health Agenda, and the establishment of data sources to assist in health planning and prioritization
- Administers the federal Preventive Health Block Grant, which provides funding for state public health programs

The bureau is funded from general fund, federal funds, and state special revenue. Base budget general fund expenditures supported emergency medical services (\$500,000), tumor registry (\$80,000), bureau administration (\$30,000) and health planning (\$19,000). State special revenue supports trauma system implementation emergency medical technician certification and licensing. Federal grant funds support the balance of program costs.

The 2005 biennium bureau budget is about 2 percent of the division budget and increases about \$2 million per year, including funding for 7.50 FTE. The increase is in federal funds, and is partially offset by a \$0.1 million general fund reduction. General fund reductions would eliminate the poison control program. Federal funds rise primarily due to increases in federal grants of \$0.9 million for breast and cervical cancer and \$0.4 million for obesity prevention.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				274,777					275,310
Vacancy Savings				(64,272)					(64,290)
Inflation/Deflation				(462)					504
Fixed Costs				15,078					16,021
Total Statewide Present Law Adjustments				\$225,121					\$227,545
DP 39 - Distance Learning Coordinator Position	1.00	0	0	46,583	1.00	0	0	0	46,451
DP 41 - Primary Care Recruitment of Local Medical Provider	0.50	0	0	0	0.50	0	0	0	0
DP 57 - Enhance SEARCH Program	0.00	0	0	82,700	0.00	0	0	0	82,700
Total Other Present Law Adjustments				\$129,283					\$129,151
Grand Total All Present Law Adjustments				\$354,404					\$356,696

Executive Present Law Adjustments

DP 39 - Distance Learning Coordinator Position - This request would add \$93,034 in federal fund and funds 1.00 FTE for the biennium to make permanent the modified position for the state's distance learning coordinator. The coordinator develops and evaluates statewide distance learning activities for training the public health workforce. The coordinator promotes distance-learning offerings from multiple sources to public health professionals throughout the state and works closely with the Public Health Disaster Coordinator to develop satellite-receiving capability throughout Montana. This position is an integral component of the bioterrorism preparedness effort and of the public health training institute.

DP 41 - Primary Care Recruitment of Local Medical Provider - This request would move spending authority from contracted services to personal services to fund 0.50 FTE to improve recruitment and retention of medical providers in Montana's rural areas. These services are currently provided by temporary contracted services. This FTE would implement the State Conrad 20 program to allow foreign medical graduates to serve in medically underserved areas that have been unable to recruit American born physicians and to implement a medical provider recruiting and tracking program. This position would also assist communities in preparing health personnel shortage area designations. Communities could be eligible for a variety of federal programs including community health center funding, rural health clinic status, and National Health Service Corporation loan repayment, and scholarships.

DP 57 - Enhance SEARCH Program - This request would add \$82,700 federal funds for the National Health Services Corps SEARCH program. The NHSC SEARCH program arranges preceptorships in rural and underserved areas for primary care residents, medical and dental students, mid-level students, and mental health students. The funding would be utilized to contract for developing mental health and dental preceptorships and to support the costs for placing students in underserved rural areas of Montana. NHSC SEARCH participants work with Montana providers who donate their teaching time. Some of the additional funding would help the program expand to include mental health and dental students, develop a preceptor-training program, and to improve community-based training experiences. The program helps link communities with academic institutions, provides community-based training in rural and underserved areas, nurtures cultural competencies, and helps enhance recruitment efforts for rural areas.

New Proposals											
Sub Program	Fiscal 2004					Fiscal 2005					Total Funds
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 40 - Obesity Prevention Program											
03	2.00	0	0	417,510	417,510	2.00	0	0	417,232	417,232	
DP 45 - Behavior Risk Factor Surveillance Coordinator											
03	1.00	0	0	53,398	53,398	1.00	0	0	53,252	53,252	
DP 53 - Montana Breast & Cervical Health Program											
03	1.00	0	0	939,750	939,750	1.00	0	0	939,618	939,618	
DP 54 - Epidemiology Support for Diabetes Program											
03	0.50	0	0	27,506	27,506	0.50	0	0	27,434	27,434	
DP 237 - Cardiovascular Disease 1.5 FTE											
03	1.50	0	0	54,128	54,128	1.50	0	0	53,997	53,997	
DP 245 - Eliminate Posion Control System											
03	0.00	(38,954)	0	0	(38,954)	0.00	(38,954)	0	0	(38,954)	
DP 246 - Reduce Tumor Registry General Fund Support											
03	0.00	(26,774)	0	0	(26,774)	0.00	(26,774)	0	0	(26,774)	
Total	6.00	(\$65,728)	\$0	\$1,492,292	\$1,426,564	6.00	(\$65,728)	\$0	\$1,491,533	\$1,425,805	

New Proposals

DP 40 - Obesity Prevention Program - The Obesity Prevention program would receive \$834,742 federal funds over the biennium and fund 2.00 FTE if this proposal is approved. The FTE, a program coordinator and a health education specialist would develop and implement a statewide obesity prevention plan, in conjunction with cardiovascular disease prevention task force members. The funds would be used to create a surveillance system to assess and monitor the prevalence of overweight or obese Montana adults and youth. In addition, funding would be used to develop pilot nutrition and physical activity programs for Native American children and their families living on several Montana reservations and in other communities as well.

DP 45 - Behavior Risk Factor Surveillance Coordinator - This request would add \$106,650 in federal funds over the biennium and funding for 1.00 FTE for the state Behavior Risk Factor Surveillance System (BRFSS) coordinator and for data analysis and epidemiological support to the Montana Breast and Cervical Health Program. The FTE is currently a modified FTE and this proposal would make the FTE permanent.

This position coordinates the BRFSS data collection, analyzes, and distributes survey results using appropriate statistical methods, and disseminates survey results through annual and health issue-specific reports. BRFSS is a state-based program that provides the primary source of information on health risk behaviors among Montana's adult population such as perceived health status, access to health care, use of preventive health services, disabilities, tobacco and alcohol use, dietary patterns, physical activities, injury control, and women's health issues. Montana has participated in BRFSS since 1984. The number of Montanans interviewed has increased from 855 in 1984 to 3,000 in 2001.

In addition, this position provides data analysis and epidemiological support to the Montana Breast and Cervical Health Program (MBCHP). These duties include analysis of client information regarding breast and cervical cancer screening services, vital records and Montana Central Tumor Registry data regarding cancer in Montana, BRFSS data regarding cancer screening and prevention practices, and linking of MBCHP data with Montana Central Tumor Registry data.

DP 53 - Montana Breast & Cervical Health Program - This request would add \$1.8 million federal funds and support 1.00 FTE for the Montana Breast and Cervical Health (MBCH) program. The proposal would make permanent the modified position for the American Indian screening coordinator position and would provide American Indian women on each of the seven reservations a variety of specialized health care systems to increase the likelihood that cancers are detected at a treatable stage. Funding would also support an increase in the number of cancer screens provided to women.

Each year, an estimated 600 new cases of breast cancer and 50 cases of cervical cancer will be detected in Montana women. The target population includes women who are 50-64 years of age, are uninsured or under insured, have a family gross income at or below 200 percent of the current federal poverty level, and have rarely or never been screened for cervical cancer.

DP 54 - Epidemiology Support for Diabetes Program - This request would add \$54,940 federal funds over the biennium and fund 0.50 FTE for epidemiology support for the Montana Diabetes program. The position is responsible for designing and implementing surveillance, evaluation systems, and providing statistical and data analysis. These systems are used to set program priorities, design prevention and control programs, and evaluate results. The Montana Diabetes Program works with primary care clinics across the state to improve clinical care of diabetes patients and to increase public awareness and recognition of diabetes as a major health risk.

DP 237 - Cardiovascular Disease 1.5 FTE - The 2001 legislature approved funding for 1.50 FTE added as one-time-only with federal funds. This proposal would add \$108,125 in federal funds for the biennium to continue 1.00 FTE administrative staff support for the Cardiovascular Health Program and 0.50 FTE epidemiology position shared by the Cardiovascular Health and the Diabetes Programs.

DP 245 - Eliminate Poison Control System - This proposal would eliminate the poison control system, which handles nearly 10,000 cases per year, for a \$77,908 general fund biennial savings. Unless private or other federal funding can be located, this will result in a termination of the Montana poison control system. The poison control system handles nearly 10,000 cases per year. Home management is recommended in a majority of these cases resulting in a reduction in emergency room visits. The services of the poison center will not be available to the public or to public health professionals for bioterrorism-related activities.

**LFD
COMMENT**

LFD staff has requested documentation that poisoning incidences that may appear to be related to bioterrorism could be funded through federal bioterrorism grant funds. LFD staff has also requested information on whether there may be other options such as a national hot line.

DP 246 - Reduce Tumor Registry General Fund Support - This request would reduce general fund support for the Tumor Registry by 33.0 percent, for a savings of \$53,548 over the biennium. This proposal reduces or eliminates services to reporting facilities including on-site training, software support, and data follow-up. The reduction may result in less timely and less accurate information in the tumor registry and may compromise ability to monitor trends and to detect cancer clusters.

**LFD
COMMENT**

LFD staff has requested documentation whether the increase in breast and cervical cancer funding could be used to fund tumor registry activities related to breast and cervical cancer. If so, the federal funds could offset some of the general fund reduction for tumor registry.

Sub-Program Details

FAMILY & COMMUNITY HEALTH 04

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	27.27	0.00	4.00	31.27	0.00	4.00	31.27	31.27
Personal Services	1,106,715	184,449	172,399	1,463,563	182,892	171,927	1,461,534	2,925,097
Operating Expenses	2,327,976	4,633	202,818	2,535,427	5,816	66,581	2,400,373	4,935,800
Equipment	0	0	0	0	0	0	0	0
Grants	6,542,681	0	(593,076)	5,949,605	0	(593,076)	5,949,605	11,899,210
Benefits & Claims	9,423,803	0	0	9,423,803	0	0	9,423,803	18,847,606
Total Costs	\$19,401,175	\$189,082	(\$217,859)	\$19,372,398	\$188,708	(\$354,568)	\$19,235,315	\$38,607,713
General Fund	1,236,713	9,150	(605,904)	639,959	9,070	(605,904)	639,879	1,279,838
State/Other Special	0	0	85,284	85,284	0	85,101	85,101	170,385
Federal Special	18,164,462	179,932	302,761	18,647,155	179,638	166,235	18,510,335	37,157,490
Total Funds	\$19,401,175	\$189,082	(\$217,859)	\$19,372,398	\$188,708	(\$354,568)	\$19,235,315	\$38,607,713

The Family and Community Health Bureau administers public health programs for women, children, and families including the Women, Infants, and Children (WIC) program, Family Planning, the Montana Initiative for the Abatement of Mortality in Infants (MIAMI), perinatal programs, and county grants from the Maternal and Child Health Block Grant. The bureau also coordinates fetal, infant and child mortality reviews, and sudden infant death syndrome (SIDS) prevention.

Program funding is primarily from federal grant funds for WIC, the Maternal Child Health Block Grant, and family planning grant funds. During the base year, general fund supported a genetics contract (about \$600,000 annually), the MIAMI program (about \$570,000 annually), some family planning functions (about \$26,000 annually), matching funds for WIC farmer's market grants (about \$13,000 annually), and bureau administration costs (about \$41,000 annually). The balance of the functions was supported by federal funds.

The 2005 biennium budget request decreases about \$100,000 total funds compared to the fiscal 2002 base budget. General fund reductions of \$1.2 million are nearly offset by increases in federal and state special revenue. General fund reductions remove all general fund support for the MIAMI program, family planning, and WIC farmer's market grants. Increases in federal funds for family planning and fetal alcohol syndrome offset some of the reductions. State special revenue supports school health coordinator positions

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				238,247					236,626
Vacancy Savings				(53,798)					(53,734)
Inflation/Deflation				(1,446)					(1,064)
Fixed Costs				6,079					6,880
Total Statewide Present Law Adjustments				\$189,082					\$188,708
Grand Total All Present Law Adjustments				\$189,082					\$188,708

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 37 - Family Planning Supplemental Authority										
04	0.50	0	0	251,963	251,963	0.50	0	0	115,583	115,583
DP 48 - Fetal Alcohol Syndrome Coordinator										
04	1.00	0	0	50,798	50,798	1.00	0	0	50,652	50,652
DP 51 - WIC Administrative Support										
04	1.00	0	0	0	0	1.00	0	0	0	0
DP 55 - School Health Coordinator										
04	1.50	0	85,284	0	85,284	1.50	0	85,101	0	85,101
DP 250 - Eliminate MIAMI/Perinatal General Fund Support										
04	0.00	(567,128)	0	0	(567,128)	0.00	(567,128)	0	0	(567,128)
DP 251 - Eliminate Gen Fund Support For Farmers Market										
04	0.00	(12,828)	0	0	(12,828)	0.00	(12,828)	0	0	(12,828)
DP 252 - Eliminate Family Planning Gen Fund Support										
04	0.00	(25,948)	0	0	(25,948)	0.00	(25,948)	0	0	(25,948)
Total	4.00	(\$605,904)	\$85,284	\$302,761	(\$217,859)	4.00	(\$605,904)	\$85,101	\$166,235	(\$354,568)

New Proposals

DP 37 - Family Planning Supplemental Authority - This request is for \$367,546 additional federal funds for an increased family planning grant for the next biennium and would fund a 0.50 FTE for the Women's and Men's Health Section.

Family planning has an increase in the base amount for \$88,148 each year of the biennium, and an increase of \$136,308 in fiscal 2004 for service expansion, which was part of a three-year plan approved during the last biennium. Additional federal resources would enhance existing services and enable contractors to expand to additional populations.

The department is also requesting funding for an additional 0.50 FTE for the Women's and Men's Health Section. This is a federally funded position to implement federal projects and special initiatives for women's and men's health needs as described in the federal grant request.

LFD COMMENT

LFD staff requested information regarding conditions associated with the increase in federal family planning funds in order to determine whether the increase could be used to offset general fund reductions in the program (see DP 252). However, the increased federal funding is earmarked for specific purposes and cannot be diverted to other uses.

DP 48 - Fetal Alcohol Syndrome Coordinator - This request would add \$101,450 in federal funds for the biennium for fetal alcohol syndrome prevention and converts the existing 1.00 FTE, modified fetal alcohol syndrome coordinator position, to permanent status.

DP 51 - WIC Administrative Support - This request would fund an additional 1.00 FTE for WIC. The proposal would not add any additional authority since \$53,550 federal authority over the biennium is moved from operating expenses for a contract position to personal services to fund a permanent FTE.

A temporary worker presently fills the position, and conversion to employee status would address vendor management issues identified in a program review in 2001.

DP 55 - School Health Coordinator - This request would fund 1.50 FTE (1.00 FTE grade 16 and 0.50 FTE grade 9) to make permanent the current modified positions for the Coordinated School Health program and additional operating expenses, adding \$170,385 in state special revenue authority for the biennium. The project is a federal funded joint effort with the department and the Office of Public Instruction to implement a Coordinated School Health Program with staff in both departments.

**LFD
COMMENT**

The revenue supporting this proposal appears to be a federal source. The legislature may wish to include federal authority instead of state special revenue if it approves this request.

DP 250 - Eliminate MIAMI/Perinatal General Fund Support - This proposal would reduce \$1.1 million general fund for the MIAMI/Perinatal Program and 30.0 percent of the required state match for the MCH block grant. This funding supports community based public health services in 22 counties and 6 reservations. These services are established and described in MCA 50-19-301 as Montana's Initiative for the Abatement of Mortality in Infants, or the MIAMI program, and in MCA 50-19-401 as the Fetal, Infant and Child Mortality Prevention Act. The elimination of this funding would result in closure of all county and reservation based MIAMI programs, eliminating public health home visiting programs and services for approximately 1,500 high risk pregnant women statewide.

**LFD
ISSUE**

DPHHS has been developing an 1115 (experimental) waiver request to provide different packages of health service benefits for several Medicaid eligibility groups comprised of able-bodied adults. The waiver may include an expansion group. As discussed over the summer of 2002, the expansion would maintain mental health benefits for a number of adults currently eligible for the state supported Mental Health Services Plan and provide a limited physical health benefit as well. During November, DPHHS began exploring the idea of including an additional expansion group of low-income pregnant women. Medicaid currently requires states to cover low-income women with incomes up to 133.0 percent of the federal poverty level (\$24,073 for a family of 4 during 2002). Preliminary analysis indicated that it might be possible to expand Medicaid benefits to more low-income women without changing the general fund cost of the waiver.

If the legislature wants to continue to provide services similar to those provided by MIAMI it could request that DPHHS present the waiver proposal and describe the eligibility and service package that could be accommodated. Providing services through this waiver would not ensure that the same women would be served or that the same services would be provided as in the current MIAMI program. However, it would offset some of the service reduction for some women who would have been served by MIAMI and it might provide more services to more low-income women at no increased general fund cost.

**LFD
COMMENT**

DPHHS is preparing legislation to remove the requirement to contract with local programs to provide MIAMI services. If the legislature accepts this proposal, it should make the proposal contingent on passage and approval of appropriate legislation.

DP 251 - Eliminate General Fund Support for Farmers Market - General fund support added by the 2001 legislature for the farmer's market nutrition program of \$25,656 would be eliminated by this proposal. This funding provides the required match to receive federal WIC Farmer's Market Nutrition Program dollars - about a 30/70 state/federal split. The grant provides food benefits to about 2,200 persons, and \$59,864 in revenue, for 10-15 farmers markets statewide.

DP 252 - Eliminate Family Planning General Fund Support - This proposal would eliminate \$51,896 general fund support for family planning. All general fund goes directly to 15 local agencies in 36 locations for family planning services for poor women. DPHHS estimates that 162 low-income women would receive reduced or no services and that the number of unintended pregnancies would increase by 111 and the number of abortions would increase by 16. This general fund accounts for a small amount of the required state MCH block grant match.

Sub-Program Details

COMMUNICABLE DISEASE 05

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	30.37	15.50	0.00	45.87	15.50	0.00	45.87	45.87
Personal Services	1,395,713	638,165	0	2,033,878	637,747	0	2,033,460	4,067,338
Operating Expenses	3,022,833	1,488,751	314,771	4,826,355	1,577,583	315,021	4,915,437	9,741,792
Equipment	105,663	952,619	0	1,058,282	1,421,209	0	1,526,872	2,585,154
Capital Outlay	0	0	0	0	0	0	0	0
Grants	415,062	7,055,377	4,250	7,474,689	6,501,776	4,500	6,921,338	14,396,027
Benefits & Claims	35,436	0	0	35,436	0	0	35,436	70,872
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$4,974,707	\$10,134,912	\$319,021	\$15,428,640	\$10,138,315	\$319,521	\$15,432,543	\$30,861,183
General Fund	496,299	(15,636)	(67,000)	413,663	(14,587)	(67,000)	414,712	828,375
State/Other Special	425,101	0	8,500	433,601	0	9,000	434,101	867,702
Federal Special	4,053,307	10,150,548	377,521	14,581,376	10,152,902	377,521	14,583,730	29,165,106
Total Funds	\$4,974,707	\$10,134,912	\$319,021	\$15,428,640	\$10,138,315	\$319,521	\$15,432,543	\$30,861,183

The Communicable Disease Control and Prevention Bureau is responsible for several programs related to detection, control, and prevention of communicable diseases. The bureau budget request is about 5 percent of the division biennial budget request. This bureau administers:

- The STD/HIV Prevention Program, which provides surveillance and outbreak control of reportable infectious diseases, including AIDS and other sexually transmitted diseases;
- The Sexual Assault Prevention Program;
- The Immunization Program, which prevents the occurrence and transmission of vaccine-preventable diseases such as measles, mumps, hepatitis, and rubella;
- The Epidemiology Program, which manages the division's efforts toward disease control through surveillance, outbreak response, and epidemiological efforts;
- The Food and Consumer Safety Program, which is responsible for ensuring that healthful conditions exist and are maintained in food serving and processing establishments, hotels, motels, campgrounds, public pools, and trailer parks; and for providing training and support services to local health agencies and sanitarians; and
- The state Public Health Laboratory.

The communicable disease budget rises about \$20 million over the biennium primarily due to requested increases in three federal grants for bioterrorism prevention (\$20 million and 15.50 FTE) and immunization and rape prevention (\$0.7 million). New proposals reduce general fund by \$0.1 million for AIDS prevention and services and epidemiology and surveillance functions.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				(11,740)					(9,781)
Vacancy Savings				(55,359)					(55,438)
Inflation/Deflation				522					1,398
Fixed Costs				12,021					12,840
Total Statewide Present Law Adjustments				(\$54,556)					(\$50,981)
DP 60 - FDA Contract Increase									
0.00		0	0	8,000	8,000	0.00	0	0	8,000
DP 64 - Bioterrorism Preparedness									
15.50		0	0	10,181,468	10,181,468	15.50	0	0	10,181,296
Total Other Present Law Adjustments									
15.50	\$0	\$0	\$10,189,468	\$10,189,468	15.50	\$0	\$0	\$10,189,296	\$10,189,296
Grand Total All Present Law Adjustments				\$10,134,912					\$10,138,315

Executive Present Law Adjustments

DP 60 - FDA Contract Increase - This request would add an additional \$16,000 federal funds for the biennium for contracting authority increases. DPHHS contracts with the FDA to inspect food manufacturers that ship their products across state lines (interstate).

DP 64 - Bioterrorism Preparedness - This proposal would add \$20 million federal funds and funding for 15.50 FTE for the biennium for bioterrorism. These funds would be used to upgrade state and local public health jurisdiction preparedness for and response to bioterrorism, other outbreaks of infectious disease, and other public health threats and emergencies, and to upgrade hospital preparedness.

Key focus areas include:

- o Preparedness planning and readiness assessment
- o National pharmaceutical stockpile (NPS) preparedness
- o Disease surveillance
- o Laboratory capacity improvement, which could involve construction
- o Development of a health alert network, which provides local health departments with the connectivity to allow rapid receipt and transmission of urgent health information and alerts
- o Information and training on communicating health risks and dissemination
- o Education and training for responders and the public health workforce, including distance learning and satellite system development
- o Assistance to hospitals and other care providers to improve their ability to respond to a bioterrorism event or other public health emergency

The types of FTE that are included are: program management positions; NPS manager; an emergency medical services disaster manager; a contract manager; a surveillance/epidemiology assistant; a public health veterinarian; a laboratory bioterrorism manager; health alert network coordinator; emergency communications coordinator; emergency preparedness training coordinator; distance learning/website coordinator; hospital coordinator; and administrative assistants.

New Proposals										
Sub Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 42 - Immunization Increase										
05	0.00	0	0	300,000	300,000	0.00	0	0	300,000	300,000
DP 248 - Reduce Epidemiology and Surveillance Gen Fund										
05	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
DP 249 - Eliminate AIDS Prevention General Fund										
05	0.00	(42,000)	0	0	(42,000)	0.00	(42,000)	0	0	(42,000)
DP 261 - Rape Prevention										
05	0.00	0	0	77,521	77,521	0.00	0	0	77,521	77,521
DP 8063 - Pool & Spa Exemptions (Requires Legislation)										
07	0.00	0	8,500	0	8,500	0.00	0	9,000	0	9,000
Total	0.00	(\$67,000)	\$8,500	\$377,521	\$319,021	0.00	(\$67,000)	\$9,000	\$377,521	\$319,521

New Proposals

DP 42 - Immunization Increase - This proposal requests \$600,000 in federal funds over the biennium to support increased immunization activities at county public health departments and to distribute vaccine and provide required quality control for the vaccine supply.

The immunization program contracts with the county health department for specific immunization activities at the local county/community level. The program also distributes federally provided vaccine to the public health clinics and private physician offices, and makes quality assurance visits to each clinic annually.

DP 248 - Reduce Epidemiology and Surveillance - This proposal would reduce \$50,000 general fund over the biennium for epidemiology and surveillance. The reduction would result in increasing the allocation of costs of the state epi program to federally funded grant programs. The general fund was also used to address emergencies in local communities related to disease outbreaks, such as the 1999 Hepatitis outbreak in Cascade County. Other issues that could be managed with this funding include e-coli outbreaks and investigations, emergency tuberculosis control and pertussis (whooping cough) control. Without these funds, assistance to local jurisdictions for communicable disease investigations and response would be reduced.

DP 249 - Eliminate AIDS Prevention General Fund - The Executive Budget reduces general fund support for AIDS treatment is reduced by \$84,000 over the biennium. This proposal would remove funding added by legislative initiative during the 2001 session.

The general fund appropriation was administered in conjunction with the federal Ryan White Title II dollars. The monies were used in three ways: 1) to fund a work incentives program which allowed persons previously disabled by AIDS to return to work part time; 2) to finance emergency housing assistance; and 3) to access dental care.

LFD ISSUE

The department states that the elimination of this funding could jeopardize federal HIV treatment funds. Withdrawal of state assistance and/or a decrease in Medicaid or Department of Corrections spending on HIV positive persons could endanger the federal award of \$784,000 used for HIV treatment. HRSA Federal Grant Application Guidance, Section III. B. Legislative Mandates, Section 2617(b)(6)(E), of the CARE Act states that the state will maintain HIV-related activities at a level that is equal to the level of expenditures by the state for the one year period preceding fiscal year for which the state is applying for the Title II grant.

LFD staff has requested that DPHHS provide the legislature with specific documentation from the administering federal agency that it will reduce federal grant funds for AIDS. If so, the legislature can consider other alternatives, including appropriating general fund to maintain the grant award or eliminating federal appropriation authority commensurate with the amount of grant reduction.

DP 261 - Rape Prevention - This proposal would add \$155,042 in federal funds for the biennium for the Montana rape prevention and education programs. The Montana rape prevention and education program provides funds to qualified education sites throughout the state.

DP 8063 - Pool & Spa Exemptions - Swimming pools and spas owned and operated by subdivisions of state government are exempt from the \$50 or \$75 per year license fee, depending on type of facility, but are inspected and regulated identically to those operated by private entities. This request is for an increase in state special revenue of \$17,500 over the biennium, contingent on passage and approval of LC 434, which would charge for the inspections commensurate with costs.

Sub-Program Details

HEALTH CARE RESOURCES 06

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	18.00	0.00	0.00	18.00	0.00	0.00	18.00	18.00
Personal Services	756,112	(458)	0	755,654	(727)	0	755,385	1,511,039
Operating Expenses	1,002,982	10,928	0	1,013,910	12,565	0	1,015,547	2,029,457
Grants	1,028	0	0	1,028	0	0	1,028	2,056
Benefits & Claims	13,546,631	0	0	13,546,631	0	0	13,546,631	27,093,262
Total Costs	\$15,306,753	\$10,470	\$0	\$15,317,223	\$11,838	\$0	\$15,318,591	\$30,635,814
General Fund	2,810,311	(72,170)	(4,096,947)	(1,358,806)	(56,008)	(4,258,500)	(1,504,197)	(2,863,003)
State/Other Special	882	(882)	4,096,947	4,096,947	(882)	4,258,500	4,258,500	8,355,447
Federal Special	12,495,560	83,522	0	12,579,082	68,728	0	12,564,288	25,143,370
Total Funds	\$15,306,753	\$10,470	\$0	\$15,317,223	\$11,838	\$0	\$15,318,591	\$30,635,814

The Health Care Resources program administers CHIP and special health services for children and accounts for about 5 percent of the division 2005 biennium budget request. CHIP is most significant service, accounting for \$14.5 million of the annual budget.

The CHIP program includes staff and resources to administer an insurance program for children in families with incomes less than 150 percent of the federal poverty level (\$27,150 for a family of 4 in 2002). The state contracts with private insurance carriers to provide and pay for services. Families with incomes above 100 percent of the federal poverty level pay an annual co-payment of \$215.

CHIP is funded from a fixed federal grant. States have three years to spend the grant allotment from the time it is received. Federal funds require a state match based on a percentage of the match rate for Medicaid benefits. The state match requirement for federal CHIP funding is 18.92 percent in fiscal 2004, and 19.03 percent in fiscal 2005. Administrative costs are limited to 10 percent of the grant amount.

CHIP is not an entitlement. Enrollment in the program is limited by the funds available.

Special health services for children comprise a very small part of the \$15 million annual budget for this program and are supported by about \$845,000 of the federal Maternal Child Health Block grant.

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				31,026						30,747
Vacancy Savings				(31,484)						(31,474)
Inflation/Deflation				1,391						1,449
Fixed Costs				9,537						11,116
Total Statewide Present Law Adjustments				\$10,470						\$11,838
Grand Total All Present Law Adjustments				\$10,470						\$11,838

Executive Present Law Adjustments

The only present law adjustments for the Health Care Resources program are the statewide present law adjustments. Biennial increases due to annualization of fiscal 2003 pay plan increases are nearly offset by the vacancy savings included in the Executive Budget.

New Proposals										
Fiscal 2004						Fiscal 2005				
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 253 - Fund Switch For The CHIP Program										
06	0.00	(4,096,947)	4,096,947	0	0	0.00	(4,258,500)	4,258,500	0	0
Total	0.00	(\$4,096,947)	\$4,096,947	\$0	\$0	0.00	(\$4,258,500)	\$4,258,500	\$0	\$0

New Proposals

DP 253 - Fund Switch for the CHIP Program - This proposal would reduce general fund by \$8.3 million and increase state special revenue by a like amount for the biennium. This proposal would implement section of I-I46, which allocates a portion of tobacco settlement revenue as matching funds to draw down the maximum federal CHIP grant allowable. The Executive Budget allocates \$5.5 million of the tobacco settlement revenue at matching funds for CHIP and the remaining \$2.6 million as matching funds for Medicaid.

LFD ISSUE

The Executive Budget removes \$2.6 million more general fund than required to continue CHIP at its present level of services for the 2005 biennium and does not request additional federal CHIP authority to expend the tobacco settlement revenue. The narrative explanation accompanying the Executive Budget also indicates that the \$2.6 million of tobacco settlement state special revenue authority will be used to match Medicaid federal funds.

Legality to Use Tobacco Settlement Funds Allocated to CHIP for Medicaid Match

Narrative included in the Executive Budget and DPHHS staff indicate that \$2.6 million of the tobacco settlement proceeds allocated by I-I46 will be used to pay matching costs for Medicaid services. During preliminary budget discussions, DPHHS had considered the option of reducing eligibility for Medicaid as a cost containment measure. The potential eligibility reductions were such that under federal regulations the state would no longer be eligible to receive the federal CHIP grant. The rationale for using tobacco settlement proceeds to match federal Medicaid funds seems to be related to executive decision to remove Medicaid eligibility reductions from its budget request.

**LFD
ISSUE
(Cont.)**

Using tobacco settlement proceeds to match Medicaid funds is not explicitly allowed in the section of I-146 that allocates proceeds to CHIP and for programs of the Comprehensive Health Association. The applicable sections of I-146 read:

"17-6-606. Tobacco settlement accounts - purpose - uses. (1) The purpose of this section is to dedicate a portion of the tobacco settlement proceeds to fund a statewide comprehensive tobacco disease prevention program designed to:

- (a) discourage children from starting use of tobacco;
- (b) assist adults in quitting use of tobacco;
- (c) provide funds for the children's health insurance program; and
- (d) provide funds for the comprehensive health associate programs.

(3) An amount equal to 17% of the total yearly tobacco settlement proceeds received after June 30, 2003, must be deposited in a state special revenue account. Subject to subsection (5) [appropriation by the legislature], the funds referred to in this subsection may be used only for:

- (a) matching funds to secure the maximum amount of federal funds for the Children's Health Insurance Program Act provided for in Title 53, chapter 4, part 10; and
- (b) programs of the comprehensive health association provided for in Title 33, chapter 22, part 15, with funding use subject to 33-22-1513."

The first section of 17-6-606 clearly establishes the uses allowed for the tobacco settlement revenue and providing funds for the Medicaid program is not among them.

Presumably, the executive has relied on the rationale that "matching funds" in Section 17-6-606(3)(a) MCA, means funds that match any federal grant, Medicaid among them. Under such a rationale, one could make the argument that all of the tobacco settlement state special revenue would be needed to prevent Medicaid eligibility reductions in order to ensure receipt of the federal CHIP grant, thereby leaving none of the tobacco settlement proceeds to match federal grant funds. Alternatively, matching funds applied broadly could divert all tobacco settlement proceeds from CHIP to programs with little to no relationship to CHIP.

If the legislature chooses to adopt the executive proposal to use tobacco settlement proceeds to match Medicaid federal funds, it could amend Section 17-6-606, MCA, to explicitly allow that use, and to clarify whether only a portion of proceeds allocated in that section could be used for Medicaid match, or whether all funds could be used. This option would prevent any court action to interpret whether the executive rationale was legal and it could prevent DPHHS use of tobacco settlement proceeds in ways not contemplated by the legislature.

If the legislature accepts the executive proposal, and does not amend Section 17-7-606, MCA, it could also consider establishing a restricted appropriation for CHIP matching funds if it wishes to ensure that funds are not diverted for other uses. Restricting an appropriation does not ensure its expenditure for the use specified, but it does prevent its expenditure for uses not specified.

Sub-Program Details

LAB 07

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	29.00	0.00	0.00	29.00	0.00	0.00	29.00	29.00
Personal Services	1,086,488	186,823	0	1,273,311	189,601	0	1,276,089	2,549,400
Operating Expenses	1,026,164	91,934	9,626	1,127,724	133,157	9,626	1,168,947	2,296,671
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	17,881	0	51,988	69,869	0	0	17,881	87,750
Total Costs	\$2,130,533	\$278,757	\$61,614	\$2,470,904	\$322,758	\$9,626	\$2,462,917	\$4,933,821
General Fund	185,374	0	(185,374)	0	0	(185,374)	0	0
State/Other Special	1,945,159	278,757	246,988	2,470,904	322,758	195,000	2,462,917	4,933,821
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$2,130,533	\$278,757	\$61,614	\$2,470,904	\$322,758	\$9,626	\$2,462,917	\$4,933,821

The Laboratory program includes both the clinical and environmental laboratory functions. The Laboratory program accounts for about 1 percent of the total HPSD 2005 biennium budget request. The Executive Budget removes all general fund, leaving the Laboratory program supported by fee revenue. Other budget requests would add funding to purchase increased supplies and equipment and to pay off equipment loans.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				239,879						242,772
Vacancy Savings				(53,056)						(53,171)
Inflation/Deflation				422						451
Fixed Costs				27,512						34,706
Total Statewide Present Law Adjustments				\$214,757						\$224,758
DP 70 - Increase Laboratory Supply Budget										
0.00	0	64,000	0	64,000		0.00	0	98,000	0	98,000
Total Other Present Law Adjustments										
0.00	\$0	\$64,000	\$0	\$64,000		0.00	\$0	\$98,000	\$0	\$98,000
Grand Total All Present Law Adjustments				\$278,757						\$322,758

Executive Present Law Adjustments

DP 70 - Increase Laboratory Supply Budget - This request would add \$162,000 of state special revenue authority for the biennium to meet the projected increase in the laboratory supply budget for increased test volumes. Test volumes sent to the laboratory from Montana healthcare providers continue to increase each year, which increases the laboratory supply budget.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 49 - Pay Off Wells Fargo Loan for Equipment										
07	0.00	0	51,988	0	51,988	0.00	0	0	0	0
DP 67 - Laboratory Equipment Replacement										
07	0.00	0	195,000	0	195,000	0.00	0	195,000	0	195,000
DP 247 - Eliminate Gen Fund Support for Public Health Lab										
07	0.00	(185,374)	0	0	(185,374)	0.00	(185,374)	0	0	(185,374)
Total	0.00	(\$185,374)	\$246,988	\$0	\$61,614	0.00	(\$185,374)	\$195,000	\$0	\$9,626

New Proposals

DP 49 - Pay Off Wells Fargo Loan for Equipment - This request would add \$51,988 in state special revenue authority for early pay off of a bank loan for the purchase of organic chemistry equipment for the Environmental Laboratory. There are about three years remaining in the five-year loan with at a projected balance of \$51,988.

DP 67 - Laboratory Equipment Replacement - This request to replace laboratory equipment would add \$390,000 in state special revenue authority for the biennium. Certain equipment items, such as autoclaves and furnaces, will soon become unusable as replacement parts will no longer be available from the manufacturer due to equipment age.

DP 247 - Eliminate Gen Fund Support for Public Health Lab - This proposal would eliminate all general fund support for the public health laboratory, reducing \$370,748 general fund over the biennium. General fund pays for laboratory testing and other functions performed for public health purposes. Such functions include environmental samples for anthrax testing, food out-break testing, or most recently testing mosquito pools for West Nile virus, and tests for influenza, measles, mumps, tuberculosis, and pertussis. Both laboratories have obligations to provide services that benefit the general public. Without general fund support for public health functions, the laboratory would be required to re-assess its role in public health and may be forced to reduce or eliminate some of the services currently provided.

**LFD
ISSUE**

The consequences of elimination of general fund for laboratory functions, for which there is no specific individual beneficiary, but potentially widespread public health benefits, are several. If DPHHS is able to find other funding sources to fund continued public health testing, there would be no consequence. However, if the laboratory reduces or eliminates such testing, the consequences could range from benign with little impact to substantial impairment of DPHHS ability to assist in effective prevention and management of serious disease outbreaks.

Some of the tests may not be performed and there may be no adverse consequences. Some of the tests may not be performed until an outbreak of disease escalates to the point that it cannot be ignored. The consequence in that instance is a reduced opportunity to prevent, manage, or control a public health danger.

Another potential consequence is that other laboratories would perform the tests. In that case, there may be no adverse consequences. However, there are few laboratories that are equipped to manage and control the biological agents, such as tuberculosis, that the public health laboratory routinely processes. It is most likely that tests involving such agents would be conducted by out of state laboratories.

Assuming that other laboratories could or would perform such tests and that entities requesting the tests and laboratories involved would communicate quickly and efficiently with DPHHS personnel, disease management and prevention could still be conducted as efficiently as if the tests were performed by the DPHHS laboratory. However, if for any reason testing or communication did not function effectively, adverse consequences could be a reduced opportunity to prevent, manage, or control a public health danger as previously noted.

There are two options the legislature could consider to potentially provide partial funding for public health laboratory functions for which there is no direct payee or beneficiary. However, both options are limited, and one may have an unintended consequence.

New or Expanded Federal Grants

New and expanded federal grants might be able to fund some of the public health laboratory functions at risk of being discontinued. For example, it seems that the bioterrorism federal grant could be used for anthrax testing. However, there may not be other disease testing, such as West Nile virus, for which a suitable grant source may not exist.

Raise Fees

While it may be possible to raise fees on other types of laboratory functions and use excess fund balances to support public health functions, that may not be a desirable alternative. The disadvantage of this proposal is that persons who need specific services will be providing funds for public health benefits unrelated to the specific service they purchase.

DPHHS staff estimate that it would require at least a 6.6 percent fee increase to provide funds equivalent to the general fund reduction and that such increases may cause persons to send lab tests that are nonemergent out of state.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	109.70	0.00	(2.00)	107.70	0.00	(2.00)	107.70	107.70
Personal Services	4,258,309	780,964	(91,095)	4,948,178	776,077	(91,477)	4,942,909	9,891,087
Operating Expenses	2,278,519	82,593	0	2,361,112	86,948	0	2,365,467	4,726,579
Equipment	17,498	0	0	17,498	0	0	17,498	34,996
Grants	354,100	0	0	354,100	0	0	354,100	708,200
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$6,908,426	\$863,557	(\$91,095)	\$7,680,888	\$863,025	(\$91,477)	\$7,679,974	\$15,360,862
General Fund	1,955,210	323,615	(31,828)	2,246,997	321,879	(31,828)	2,245,261	4,492,258
State/Other Special	224,944	46,074	0	271,018	46,038	0	270,982	542,000
Federal Special	4,728,272	493,868	(59,267)	5,162,873	495,108	(59,649)	5,163,731	10,326,604
Total Funds	\$6,908,426	\$863,557	(\$91,095)	\$7,680,888	\$863,025	(\$91,477)	\$7,679,974	\$15,360,862

Program Description

The Quality Assurance Division provides services that:

- Protect the safety of clients who use Montana health care, day care, and residential providers through licensure and/or certification of 2,567 facilities, 318 of which are certified for Medicare and Medicaid
- Detect and investigate abusive or fraudulent practices in the Medicaid program and initiate recovery efforts
- Reduce Medicaid costs by identifying other insurers or parties responsible for paying a client's medical expenses
- Provide independent audits for DPHHS programs and independent fair hearings for clients and providers participating in DPHHS programs
- Furnish facility management services for the majority of state institutions
- Monitor and evaluate health maintenance organizations for quality assurance and network adequacy
- Maintain the Certified Nurse Aide Registry and approve and monitor 74 Nurse Aide Training programs
- Operate the Certificate of Need (CON) Program

Program Reorganization

The department internal audit function was moved to the Quality Assurance Division from the Director's Office in fiscal 2003. The reorganization involved the transfer of 1.00 FTE.

Program Narrative

Quality Assurance Division Major Budget Highlights	
○ Contracted services increase to recover Medicaid costs from third parties ○ Elimination of funding for 2.00 FTE	
Major LFD Issues	
○ Potential general fund reduction of \$144,855 over the biennium ○ Use of alcohol tax proceeds to fund certification of chemical dependency programs not authorized by statute ○ Potential workload reductions if Executive Budget childcare funding reductions are accepted by the legislature	

The Quality Assurance Division budget request rises \$1.5 million from the base budget expenditures over the biennium, which includes a \$0.6 million increase in general fund. The increase is partially offset by funding reductions for 2.00 FTE. Nearly all of the increase is due to personal services and other statewide present law adjustment increases. Increases in personal services rise due to annualization of the fiscal 2003 pay plan and fully funding several positions that were vacant for part of fiscal 2002.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Quality Assurance Division						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,955,210	28.3%	\$ 2,246,997	29.3%	\$ 2,245,261	29.2%
02034 Earmarked Alcohol Funds	58,374	0.8%	66,561	0.9%	66,525	0.9%
02380 02 Indirect Activity Prog 08	4,504	0.1%	5,500	0.1%	5,500	0.1%
02474 Lien & Estate Collections	162,066	2.3%	198,957	2.6%	198,957	2.6%
03096 Discretionary Child Care	430,841	6.2%	430,841	5.6%	430,841	5.6%
03251 Child Care Admin	135,305	2.0%	135,305	1.8%	135,305	1.8%
03303 Title 18 Clia	60,311	0.9%	69,183	0.9%	70,139	0.9%
03335 Fda Mammography Inspections	34,189	0.5%	30,208	0.4%	30,208	0.4%
03530 93.658 - Iv-E Fost Care & Adp	70,303	1.0%	74,272	1.0%	74,157	1.0%
03580 93.778 - Med Adm 50%	949,137	13.7%	979,040	12.7%	980,144	12.8%
03597 03 Indirect Activity Prog 08	1,064,174	15.4%	1,133,046	14.8%	1,131,614	14.7%
03934 Title 19	310,347	4.5%	593,225	7.7%	593,191	7.7%
03935 Title 18	977,682	14.2%	1,051,970	13.7%	1,052,311	13.7%
03948 T-19 Obra Nurse Aid	18,879	0.3%	26,371	0.3%	26,383	0.3%
03960 Rural Hospital Flexibility Prog	677,104	9.8%	639,412	8.3%	639,438	8.3%
Graud Total	\$ 6,908,426	100.0%	\$ 7,680,888	100.0%	\$ 7,679,974	100.0%

The Quality Assurance Division is funded primarily from federal funds (67 percent of the 2005 biennium request). Medicaid funding is the single largest source of federal funds and accounts for 21 percent of the annual program budget request, while Medicare funding supports 14 percent of the budget request. General fund accounts for 28 percent of program funding in the base budget and rises to 29 percent each year of the 2005 biennium request. State special revenue is 4.0 percent.

General fund supports: the full cost of radiological equipment testing; the state match for Medicaid and Title IV-E (foster care) eligible cost; a portion of child care licensure; and a portion of division administration.

LFD ISSUE

Funding Allocation

The general fund support for this program increases from 28 percent of the base budget to 29 percent of the annual budget in the 2005 biennium. If the general fund share of costs remained constant, the general fund support for the 2005 biennium could be reduced by \$144,855 over the biennium. This increase is caused primarily by adjustments to the base budget cost allocation mix of several administrative functions, which adds \$102,857. If the legislature assumes that the 2005 biennium workload will be allocated much as it was during the base budget year, the legislature could reduce general fund by assuming programs will be supported in the same funding mix during the 2005 biennium as in fiscal 2002.

State special revenue includes: alcohol taxes allocated to DPHHS; lien and estate recoveries for Medicaid services; and indirect funds. Alcohol taxes fund staff and contracted services for chemical dependency program licensure. Lien and estate funds pay for contracted services to pursue recoveries for the cost of Medicaid funded nursing home services. The contractor is paid about 20 percent of collections.

**LFD
ISSUE**
Alcohol Tax Funding for Licensure not Within Statutory Guidelines

The use of alcohol taxes allocated to DPHHS is discussed in the agency overview. The Executive Budget includes \$133,086 of state special revenue alcohol tax for chemical dependency program licensure in this program. As discussed in the agency-wide issue, this use is not allowed in statute. Three options are listed for consideration.

- Amend statute to allow administrative or other uses of such revenues
- Replace the alcohol tax with general fund
- Do nothing

**LFD
COMMENT**

The option of discontinuation of chemical dependency program licensure is not listed because it could potentially cause cost increases in for Medicaid chemical dependency services. Without licensure, there is the potential to expand of the number of providers because licensure can act as a form of gate keeper by determining provider qualification for participation in the state Medicaid program.

There are nine separate federal funding sources in the Quality Assurance Division. Some federal sources support more than one function. For instance, Medicaid funds support third party (insurance and private pay) recovery, the surveillance, utilization and review unit, the nurse aide registry for nursing homes, and the Department of Justice fraud investigation contract. Medicaid and Medicare funds support certification of services such as nursing home and personal care services. Medicare CLIA pays for review of some laboratories in order to qualify for federal funding. The rural hospital flexibility grant supports grants and other activities for local hospitals to maintain their critical access hospital status. Childcare funding supports licensure of childcare facilities. Title IV-E pays for the federal share of licensing community residential facilities. Mammography funds pay for inspections of mammography equipment. Federal indirect funding represents the federal share of allocated administrative costs, such as those for fair hearings and administrative costs.

Biennial Comparison

The Quality Assurance division 2005 biennium budget request is 4 percent higher than the 2003 biennium. Personal services cost increases of 123 percent are offset by reductions in all other expenditure categories. Personal services increases are due to vacancies in the base year and annualization of the fiscal 2003 pay plan, which more than offset the funding reduction for 2.00 FTE. Operating costs decrease because base budget and ongoing expenditures for those items are lower than the fiscal 2003 appropriations.

Figure 36
2003 Biennium Compared to 2005 Biennium
Division of Quality Assurance

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	109.70	107.70	2.00	
Personal Services	\$ 9,168,766	\$ 9,891,087	\$ 722,321	123.0%
Operating Costs	4,825,536	4,726,579	(98,957)	-16.9%
Equipment	55,271	34,996	(20,275)	-3.5%
Grants	<u>724,100</u>	<u>708,200</u>	<u>(15,900)</u>	-2.7%
Total Costs	<u>\$ 14,773,673</u>	<u>\$ 15,360,862</u>	<u>\$ 587,189</u>	100.0%
General Fund	4,084,388	4,492,258	407,870	69.5%
State Special	601,350	542,000	(59,350)	-10.1%
Federal Funds	<u>10,087,935</u>	<u>10,326,604</u>	<u>238,669</u>	40.6%
Total Funds	<u>\$ 14,773,673</u>	<u>\$ 15,360,862</u>	<u>\$ 587,189</u>	100.0%
Percent Increase			4.0%	

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				990,933						985,845
Vacancy Savings				(209,969)						(209,768)
Inflation/Deflation				8,678						12,628
Fixed Costs				133						538
Total Statewide Present Law Adjustments				\$789,775						\$789,243
DP 76 - TPL Lien & Estate Recovery										
0.00	0	36,891	36,891	73,782		0.00	0	36,891	36,891	73,782
Total Other Present Law Adjustments										
0.00	\$0	\$36,891	\$36,891	\$73,782		0.00	\$0	\$36,891	\$36,891	\$73,782
Grand Total All Present Law Adjustments				\$863,557						\$863,025

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 76 - TPL Lien & Estate Recovery - This request adds \$73,782 state special revenue and \$73,782 federal funds for the biennium for an increase in the contract to recover funds from the estates and property of Medicaid clients who have received nursing home services and to enhance recoveries from third party insurances. The contract, which was expanded in the third quarter of fiscal 2002 to include enhanced recoveries from third party insurance, will be annualized and increased for re-bid in January 2003.

LFD COMMENT

The legislature may wish to review the status of contract reprocurment. If the contract bids have either been reviewed or one has been accepted, the cost of this proposal may change.

New Proposals										
Fiscal 2004						Fiscal 2005				
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 286 - FTE Reduction										
08	(2.00)	(31,828)	0	(59,267)	(91,095)	(2.00)	(31,828)	0	(59,649)	(91,477)
Total	(2.00)	(\$31,828)	\$0	(\$59,267)	(\$91,095)	(2.00)	(\$31,828)	\$0	(\$59,649)	(\$91,477)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 286 - FTE Reduction - DP 286 - FTE Reduction- This proposal reduces 2.00 FTE for a saving of \$63,656 general fund and \$118,916 in federal funds for the biennium.

LFD COMMENT

Funding reductions for the 2.00 FTE are for two vacant positions. One position has been held vacant due to the hiring freeze imposed during fiscal 2003 and the other is vacant due to a retirement. The positions are in the surveillance and cost recovery functions and audit function. The division anticipates that it can transfer duties to other positions and absorb workload.

**LFD
ISSUE**Childcare Funding Reductions Could Reduce Licensure Workload

The Executive Budget includes reductions in funding for childcare that according to the Human and Community Services Division will result in the closure or downsizing of 600 childcare facilities. The Quality Assurance Division estimates that there are about 1,800 childcare facilities and that it inspected 592 of those facilities for licensure. If the legislature accepts the executive recommendation regarding childcare funding, it may also wish to review the impact that potential closure of childcare facilities will have on the workload in the Quality Assurance Division. The legislature may conclude that reduction of 2.00 FTE in the division are sufficient to also accommodate reductions in childcare licensing workload or it may decide that additional funding reductions for personnel are warranted.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	75.50	0.00	0.00	75.50	0.00	0.00	75.50	75.50
Personal Services	3,507,031	97,101	0	3,604,132	95,121	0	3,602,152	7,206,284
Operating Expenses	21,097,511	209,680	0	21,307,191	321,185	0	21,418,696	42,725,887
Equipment	60,151	0	0	60,151	0	0	60,151	120,302
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	229,101	0	0	229,101	0	0	229,101	458,202
Total Costs	\$24,893,794	\$306,781	\$0	\$25,200,575	\$416,306	\$0	\$25,310,100	\$50,510,675
General Fund	8,939,659	67,248	0	9,006,907	112,406	0	9,052,065	18,058,972
State/Other Special	864,332	63,282	0	927,614	72,785	0	937,117	1,864,731
Federal Special	15,089,803	176,251	0	15,266,054	231,115	0	15,320,918	30,586,972
Total Funds	\$24,893,794	\$306,781	\$0	\$25,200,575	\$416,306	\$0	\$25,310,100	\$50,510,675

Program Description

The Operations and Technology Division (OTD) provides support services for the Department of Public Health and Human Services (DPHHS). Services provided by the division include: 1) budget preparation and management services; 2) fleet and lease management and mail room services; 3) operation and maintenance of computerized systems and telecommunications; 4) development of internal computer systems; 5) oversight and management of several contracts for large automated systems; and 6) vital statistics. According to the DPHHS May 2002 Information Technology Plan, the department information technology budget is 3 percent of the agency annual budget.

OTD manages contracts for several large computer systems, whose primary user is another division within DPHHS including:

- Montana Medicaid Information System (MMIS) - primary user Health Policy and Services Division
- The Economic Assistance Management System (TEAMS) - primary user Human and Community Services Division
- System for the Enforcement and Recovery of Child Support (SEARCHS) - primary user Child Support Enforcement Division
- Child and Adult Protective Services System (CAPS) - primary user Child and Family Services Division

Program Narrative

Operations & Technology Division	
Major Budget Highlights	
○	General Fund support decreases 1.3 percent compared to the 2003 biennium
○	Total funding increases 2.5 percent compared to the 2003 biennium
○	Present law adjustments decrease the division funding by \$505,501 general fund and \$995,304 total funds
○	Division is reorganized into two divisions
○	Continuation of spending reductions for some facilities maintenance contracts and mainframe usage costs

Major LFD Issues
○ Development costs not removed from the base budget ○ Expenditure recorded via an "A" accrual ○ Legislative review of system development and replacement

Summary by Major Function

Figure 37 on the next page summarizes the funding of the OTD by major function. Centralized service functions, such as budget management, communications oversight, and computer technical support comprise 23 percent of division funding. Computer systems that are developed and maintained by contractors are estimated to cost the department \$37.7 million in the 2005 biennium or 75 percent of the division budget. Spending reductions, implemented during fiscal 2003, have impacted the funding for some of these major systems maintained by contractors.

Systems Development

Childcare Under the Big Sky

During the 2003 biennium the department developed and implemented the Childcare Under the Big Sky (CCUBS) system. This system was developed to replace and add functionality to the Montana Automated Childcare System (MACCS) and the Child and Adult Protective Services (CAPS) system. Prior to the development and implementation of CCUBS, MACCS preformed financial and management functions for the childcare subsidy program and CAPS acted as a childcare provider licensing system. The department indicates the core system for CCUBS was provided to the state by a contractor, at no cost, and that the Montana specific portion of the system costs \$1,775,000. Federal childcare discretionary funds were used to fund the CCUBS system.

Ongoing and Future System Development

While the budget, as submitted, does not indicate that any significant system development or replacement will occur in the 2005 biennium, the department's information technology plan indicates that the MMIS system should be replaced with a target date of July 1, 2006. The MMIS system provides automated claims processing and data collection for medical services including Medicaid services, Mental Health Services Plan, Children's Health Insurance Program and certain Indian Health Services.

One area of concern for MMIS is compliance with the Health Insurance Portability and Accountability Act (HIPAA). The administrative simplification portion of this act requires that national standards for electronic health care transactions and national identifiers for providers, health plans, and employers be established. Covered entities must comply with a number of these requirements by October 2002 or 2003, depending upon whether or not the entity sought and was granted a one-year extension. Because it is not feasible to replace MMIS at this time, the department plans to use a clearinghouse and translator to achieve compliance in the required timeframe. Entities not in compliance risk financial penalty. The department's base budget includes almost \$2.4 million (\$240,000 general fund) that was accrued in fiscal 2002 for HIPAA development.

Figure 37
Operations and Technology Division
Summary of Funding by Function

Function	Fiscal 2002 Actual		Fiscal 2004 Requested		Fiscal 2005 Requested		2005 Biennium		Percent Increase	Percent of Division
	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund	Total Funds		
Centralized Services										
Division Administration	\$ 176,150	\$ 431,625	\$ 165,448	\$ 405,409	\$ 168,897	\$ 413,862	\$ 334,345	\$ 819,271	-5.1%	1.6%
Budget and Analysis	228,602	445,028	254,066	494,601	253,922	494,321	507,988	988,922	11.1%	2.0%
Network and Communications Svcs.	486,790	1,044,631	484,803	1,040,366	485,231	1,041,255	970,034	2,081,651	-0.4%	4.1%
Information Systems Bureau	745,194	1,519,764	779,544	1,589,818	780,452	1,591,670	1,559,996	3,181,488	4.7%	6.3%
Internal Support	733,697	1,807,978	907,925	2,237,312	945,973	2,331,069	1,853,898	4,568,381	26.3%	9.0%
Total Centralized Services	\$ 2,370,433	\$ 5,249,026	\$ 2,591,786	\$ 5,767,506	\$ 2,634,475	\$ 5,872,207	\$ 5,226,261	\$ 11,639,713	10.9%	23.0%
Contracted Computer Systems										
TEAMS	\$ 2,953,510	\$ 6,825,119	\$ 2,920,815	\$ 6,788,579	\$ 2,922,666	\$ 6,792,166	\$ 5,843,481	\$ 13,580,745	-0.5%	26.9%
SEARCHS	649,563	2,759,345	676,049	2,871,856	676,049	2,871,856	1,352,098	5,743,712	4.1%	11.4%
CAPS	1,329,568	2,653,056	1,167,641	2,337,325	1,167,569	2,337,181	2,335,210	4,674,506	-11.9%	9.3%
Medstat	111,249	445,000	111,249	445,000	111,249	445,000	222,498	890,000	0.0%	1.8%
MMIS	1,247,768	6,407,126	1,247,768	6,407,126	1,247,768	6,407,126	2,495,536	12,814,252	0.0%	25.4%
Total Contracted Computer Systems	\$ 6,291,658	\$ 19,089,646	\$ 6,123,522	\$ 18,849,886	\$ 6,125,301	\$ 18,853,329	\$ 12,248,823	\$ 37,703,215	-1.2%	74.6%
Other										
Vital Statistics	\$ 277,568	\$ 555,122	\$ 291,599	\$ 583,183	\$ 292,289	\$ 584,564	\$ 583,888	\$ 1,167,747	5.2%	2.3%
Total Operations & Technology Div.	\$ 8,939,659	\$ 24,893,794	\$ 9,006,907	\$ 25,200,575	\$ 9,052,065	\$ 25,310,100	\$ 18,058,972	\$ 50,510,675	1.5%	100.0%

**LFD
ISSUE**Use of "A" accrual to record Expenditures for HIPAA Compliance

The department accrued almost \$2.4 million (\$240,000 general fund) of expenditures to develop system changes needed to achieve HIPAA compliance. These expenditures were accrued as an "A" accrual, meaning the services to be paid by this expenditure will be received after fiscal year end 2002. Because "A" accruals record expenditures in the current year for services that will be rendered in the future, this type of accrual could be used to build the base level of funding for the division. Building of the base budget could result in the department avoiding the need to present a request for additional funding to the legislature. Because the department expended fiscal 2002 funds for services that will be rendered in the future, and because this funding carries forward into the next biennium, the legislature may wish to:

- Reduce funding for each year of the 2005 biennium by the amount of expenditures accrued as an "A" accrual
- Designate a portion of the division's funding, equal to the amount of the "A" accrual, as a one-time-only appropriation and restrict the appropriation in use to a specific purpose (in this case system modification to achieve HIPAA compliance)
- Take no action

The department information technology plan recommends replacement of the Child and Adult Protective Services (CAPS) system in fiscal 2006. It indicates that planning for the new system would need to begin in July 2002, development by July 2003, testing by July 2004, and implementation in July 2005, in order, to achieve a replacement effective date of fiscal 2006. Thus, system planning and development would occur during the 2003 biennium and testing and implementation during the 2005 biennium. The department has not requested additional funding for this purpose.

**LFD
ISSUE**Major Information Technology Projects Undertaken Without Additional Funding

As discussed in the preceding paragraphs, DPHHS has undertaken development of a number of systems without requesting additional funding from the legislature. Because additional funding was not requested for these purposes the development of these new and replacement systems may not receive legislative scrutiny. The legislature may wish to:

- Amend section 2-17-526, MCA (information technology project budget summary) to specify that information technology projects (including system replacements) funded within existing appropriations, and estimated to cost over a specified threshold be subject to the statutory provisions of this section, inclusion in the information technology project budget summary
- Take no action

Program Reorganization

The department reorganized this division by removing: 1) accounting and fiscal management; 2) fiscal policy development and oversight; 3) institutional reimbursement; and 4) purchasing services to a newly created Fiscal Services Division. The department revised the organizational structure after a number of significant audit findings and recommendations were reported by the Legislative Audit Division (LAD) in the financial compliance audit of the department.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Operations & Technology Div						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 8,939,659	35.9%	\$ 9,006,907	35.7%	\$ 9,052,065	35.8%
02381 02 Indirect Activity Prog 09	586,778	2.4%	636,030	2.5%	644,842	2.5%
02419 Vital Statistics	277,554	1.1%	291,584	1.2%	292,275	1.2%
03598 03 Indirect Activity Prog 09	<u>15,089,803</u>	<u>60.6%</u>	<u>15,266,054</u>	<u>60.6%</u>	<u>15,320,918</u>	<u>60.5%</u>
Grand Total	<u>\$24,893,794</u>	<u>100.0%</u>	<u>\$ 25,200,575</u>	<u>100.0%</u>	<u>\$ 25,310,100</u>	<u>100.0%</u>

As illustrated in the table above, 36 percent of division funding is provided by the general fund. State special revenues provide 4 percent of division funding and federal funds provide 60 percent. The costs of the division are allocated to the programs receiving services through a complex federally approved costs allocation process.

The major automated systems managed by this division are funded with the following:

- MMIS - 25 percent general fund and 75 percent federal funds
- TEAMS - 50 percent general fund and 50 percent federal funds
- CAPS - 50 percent general fund and 50 percent federal funds
- SEARCHS - 34 percent general fund and state special revenue from child support collections and 66 percent federal funds

LFD ISSUE

Child Support Enforcement Special Revenue Fund

While the SEARCHS system is eligible for funding from the state special revenue account for child support collections, this state special revenue fund is unable to support the entire state share of SEARCHS costs. Thus, some SEARCHS costs are funded by the general fund. For a complete discussion of the child support state special revenue account and related funding issues, please refer to the narrative for the Child Support Enforcement Division.

Figure 38
2003 Biennium Compared to 2005 Biennium
Operations & Technology Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	75.50	75.50	-	
Personal Services	\$ 6,643,650	\$ 7,206,284	\$ 562,634	45.9%
Operating	42,066,728	42,725,887	659,159	53.8%
Equipment	101,503	120,302	18,799	1.5%
Debt Service	<u>472,465</u>	<u>458,202</u>	<u>(14,263)</u>	<u>-1.2%</u>
Total Costs	<u>\$ 49,284,346</u>	<u>\$ 50,510,675</u>	<u>\$1,226,329</u>	<u>100.0%</u>
General Fund	\$ 18,293,553	\$ 18,058,972	\$ (234,581)	-19.1%
State Special	2,209,530	1,864,731	(344,799)	-28.1%
Federal Funds	<u>28,781,263</u>	<u>30,586,972</u>	<u>1,805,709</u>	<u>147.2%</u>
Total Funds	<u>\$ 49,284,346</u>	<u>\$ 50,510,675</u>	<u>\$1,226,329</u>	<u>100.0%</u>
Percent Increase			2.5%	

Biennial Comparison

As illustrated in Figure 38, 2005 biennium funding for the division increases 2.5 percent when compared to the 2003 biennium. General fund support for the division decreases 1.2 percent. The majority of the division's funding, 99.7 percent, supports operating costs, including contracted services for computer systems (53.8 percent), and personal services (45.9 percent).

Present Law Adjustments										
Fiscal 2004						Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				247,275						245,208
Vacancy Savings				(150,174)						(150,087)
Inflation/Deflation				392,065						400,380
Fixed Costs				317,424						416,300
Total Statewide Present Law Adjustments				\$806,590						\$911,801
DP 77 - TEAMS FM Contract										
	0.00	(146,476)	0	(146,476)	(292,952)	0.00	(146,476)	0	(146,476)	(292,952)
DP 78 - CAPS FM Contract										
	0.00	(102,041)	0	(94,192)	(196,233)	0.00	(102,041)	0	(94,192)	(196,233)
DP 81 - TEAMS Mainframe Costs Reduction										
	0.00	(5,312)	0	(5,312)	(10,624)	0.00	(3,155)	0	(3,155)	(6,310)
Total Other Present Law Adjustments										
	0.00	(\$253,829)	\$0	(\$245,980)	(\$499,809)	0.00	(\$251,672)	\$0	(\$243,823)	(\$495,495)
Grand Total All Present Law Adjustments				\$306,781						\$416,306

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 77 - TEAMS FM Contract - This decision package reduces funding for the TEAMS facilities maintenance contract by \$292,952 general fund and \$585,904 total funds for the biennium, to continue spending reductions ordered by the Governor in accordance with section 17-7-140, MCA. This reduction equals 5 percent of the fiscal 2002 base funding for TEAMS administration. Reduction in facility maintenance contracts means that fewer programmer hours are available to complete system programming changes to correct errors and implement mandated or desirable changes.

DP 78 - CAPS FM Contract - This decision package reduces funding for CAPS facilities maintenance contract by \$204,082 general fund and \$392,466 total funds for the biennium, to continue spending reductions ordered by the Governor in accordance with section 17-7-140, MCA. This reduction equals 7.4 percent of the fiscal 2002 base funding for CAPS. Reduction in facility maintenance contracts means that fewer programmer hours are available to complete system programming changes that are necessary to correct errors and implement mandated or desirable changes.

DP 81 - TEAMS Mainframe Costs Reduction - TEAMS mainframe costs are reduced \$8,467 general fund and \$16,934 total funds for the biennium, to continue spending reductions ordered by the Governor in accordance with section 17-7-140, MCA. This reduction equals 1 percent of the fiscal 2002 base funding for data network and mainframe processing costs for TEAMS. The department has taken the following actions to reduce TEAMS mainframe costs: 1) only reports that are essential are being produced; 2) reports are being generated less frequently; 3) actions to increase system efficiency and therefore reduce mainframe usage have been implemented; and 4) jobs are scheduled to use non-prime rate times, when possible. If these actions do not generate sufficient savings, the availability of TEAMS to users may be reduced.

Other Issues

Montana Access, Electronic Benefit Transfer (EBT) system

The department developed a system called Montana Access for the electronic transfer of benefits. Federal food stamp regulations mandated that all states have in place an electronic benefit transfer system by October 2002. Implementation of Montana Access was phased in during fiscal 2002. The system currently distributes food stamp benefits and

Temporary Assistance For Needy Families (TANF) cash assistance. Additionally, the department recently announced that child support enforcement payments would be available via this system in early 2003.

The department did not request or receive additional funding for this project from the legislature, rather it was funded within the base appropriation of the division. The fiscal 2002 base budget includes \$154,044 total funds and \$44,671 general fund for development costs. These costs have not been removed from the division budget for the 2005 biennium; rather they remain in the base budget. The division intends to use these funds to support the ongoing operation of the system during the 2005 biennium. Operational costs for the system are included in the Human and Community Services Division budget.

**LFD
ISSUE**

Because the development costs for the Montana Access system remain in the base budget for this division, the legislature may wish to:

- Remove \$44,671 general fund, \$154,044 total funds, that supported development costs from the division's 2005 biennium budget
- Move these funds to the Human and Community Services Division to support operational costs of the system
- Take no action

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	607.71	12.00	10.98	630.69	12.00	10.98	630.69	630.69
Personal Services	20,359,435	4,066,648	396,950	24,823,033	4,148,209	397,292	24,904,936	49,727,969
Operating Expenses	5,569,657	573,779	254,341	6,397,777	775,853	254,341	6,599,851	12,997,628
Equipment	53,355	0	0	53,355	0	0	53,355	106,710
Capital Outlay	0	0	0	0	0	0	0	0
Benefits & Claims	85,508,893	6,964,709	(1,607,354)	90,866,248	7,160,901	(1,609,372)	91,060,422	181,926,670
Transfers	0	0	0	0	0	0	0	0
Debt Service	11,927	0	0	11,927	0	0	11,927	23,854
Total Costs	\$111,503,267	\$11,605,136	(\$956,063)	\$122,152,340	\$12,084,963	(\$957,739)	\$122,630,491	\$244,782,831
General Fund	43,633,447	4,094,593	(798,009)	46,930,031	4,266,953	(802,236)	47,098,164	94,028,195
State/Other Special	56,025	0	0	56,025	0	0	56,025	112,050
Federal Special	67,813,795	7,510,543	(158,054)	75,166,284	7,818,010	(155,503)	75,476,302	150,642,586
Total Funds	\$111,503,267	\$11,605,136	(\$956,063)	\$122,152,340	\$12,084,963	(\$957,739)	\$122,630,491	\$244,782,831

Program Description

Disability Services Division assists Montanans with disabilities in living, working, and participating in their communities. The division provides or contracts for institutional care, residential services, home-based services to families, case management, and a variety of employment outcome-related services. These services include counseling and guidance, career training, transportation, adaptive equipment, orientation and mobility services to the blind, vocational rehabilitation training, independent living services, medical services, job placement, and supported employment. Disability Services Division is responsible for medical adjudication of all claims for Social Security Disability and Supplemental Security Income. The division is responsible for two state institutions Eastmont Human Services Center (EHSC or Eastmont) in Glendive and Montana Developmental Center (MDC) in Boulder. The Developmental Disabilities Planning and Advisory Council (DDPAC) is administratively attached.

Vocational rehabilitation serves individuals with orthopedic, mental, visual, hearing, brain injury, and other disabilities. Developmentally disabled includes individuals with mental retardation, epilepsy, autism, or other neurological conditions that require treatment similar to those required by someone with mental retardation. The developmental disability must have originated before age 18 and have resulted in a substantial handicap for indefinite duration.

Statutory Title 53, MCA, 29 U.S.C. 721 et. seq., 29 U.S.C. 796, et. seq., 29 U.S.C. 774, 29 U.S.C. 777b, 29 U.S.C. 2201 et. seq., 42 U.S.C. 75, 6602, 72 U.S.C. 1300, 42 CFR 441.302(b), 42 CFR 441.302(g), 45 CFR 74.62, and 34 CFR Part 303

Program Narrative

Disability Services Division Major Budget Highlights	
○	General fund supporting this division increases from \$86.3 million to \$94.0 million (8.9 percent) and total funds increase from \$225.3 million to \$244.8 million (8.6 percent) above the 2003 biennium level
○	General fund support is reduced or eliminated for the visual services medical program, extended employment services, independent living services, donated dental services, community supports, provider rates, and 9.02 FTE
○	Present law adjustments include increases to annualize costs of disability services, Montana Developmental Center, Eastern Montana

Human Services Center, disability determination services, and provider rate increases ○ New proposals include offsetting adjustments increasing general fund to maintain services at the current level and reducing general fund requirements due to the refinancing of some costs with Medicaid funds
Major LFD Issues
○ Refinancing efforts • Failure to comply with Section 17-2-108, MCA requiring the expenditure of nongeneral fund sources prior to expenditure of general fund appropriations • Service expansion proposed • Service and rate reductions may not be implemented • Misstatement of federal funds in some decision packages ○ Medicaid certification review ○ Center for Medicaid and Medicare reviews and corrective action plan status ○ Respite wage, hour and labor issues ○ Institutional populations

Figure 39 illustrates the Disability Services Division funding by component including: Vocational Rehabilitation Services, Institutional Developmental Disability Services, Community Developmental Disability Programs, and other programs. The division's 2005 biennium budget is allocated 12 percent for Vocational Rehabilitation services, 25 percent for institutional services for developmentally disabled, 59 percent for community services for developmentally disabled and 4 percent for other services (primarily disability determination services). Because services for the developmentally disabled comprise 84 percent of the division's budget, the following narrative focuses on issues in this program area.

Figure 39
Disability Services Division
Summary of Major Program Functions with Funding

Function	Fiscal 2002 - Base Budget			Fiscal 2004 - Requested			Fiscal 2005 - Requested			Percent of Div. Total
	General Fund	State Special	Federal	General Fund	State Special	Federal	General Fund	State Special	Federal	
Vocational Rehabilitation										
Voc. Rehab. Administration	\$ 711,886	\$ -	\$ 2,631,335	\$ 764,813	\$ -	\$ 2,825,802	\$ 766,411	\$ -	\$ 2,831,704	2.9%
Voc. Rehab. Benefits	1,534,830	-	5,671,023	1,621,876	-	5,880,825	1,621,876	-	5,880,825	6.1%
Visual Services Medical Benefits	84,834	-	-	-	-	-	-	-	-	0.0%
Independent Living - Admin.	401	-	111,663	401	-	106,137	401	-	106,017	0.1%
Independent Living - Benefits	1,585	-	190,529	1,585	-	192,114	1,585	-	192,114	0.2%
Sec. 110 Blind Low Vision Administration	135,508	-	500,922	156,915	-	579,776	156,756	-	579,188	0.6%
Sec. 110 Blind Low Vision Benefits	170,797	-	631,098	170,797	-	631,098	170,797	-	631,098	0.7%
In Service Training - Administration	4,326	-	38,908	4,324	-	38,916	4,326	-	38,936	0.0%
Supported Employment	-	-	283,085	-	-	283,085	-	-	283,085	0.2%
Independent Living Part B Benefits	256,723	-	242,235	27,957	-	242,235	27,957	-	242,235	0.2%
Independent Living Part B Administration	5,016	-	46,682	5,319	-	47,874	5,309	-	47,784	0.0%
Migrant Worker Benefits	-	-	141,388	-	-	141,388	-	-	141,388	0.1%
Extended Employment Benefits	833,775	-	833,775	563,136	-	-	563,136	-	-	0.5%
MonTEch Benefits	-	-	345,559	-	-	345,559	-	-	345,559	0.3%
Social Security Benefits	-	-	231,699	-	-	231,699	-	-	231,699	0.2%
Social Security Administration	(13)	-	(60)	-	-	-	-	-	-	0.0%
Subtotal Vocational Rehabilitation	3,739,668	-	11,066,079	3,317,123	-	11,544,923	3,318,554	-	11,550,047	12.1%
Percent of Total	25.3%	0.0%	74.7%	22.3%	0.0%	77.7%	22.3%	0.0%	77.7%	100.0%
Institutions										
Montana Development Center	\$ 10,411,251	\$ 49,575	\$ -	\$ 14,135,772	\$ 49,575	\$ -	\$ 14,194,962	\$ 49,575	\$ -	11.6%
Eastern Montana Human Service Center	3,615,746	584	-	4,175,761	584	-	4,204,189	584	-	10.2%
MDC and Eastmont Medicaid	-	-	10,931,820	-	-	12,362,057	-	-	12,549,577	25.3%
Subtotal Institutions	14,026,997	50,159	10,931,820	18,301,533	50,159	12,362,057	18,399,151	50,159	12,549,577	
Percent of Total	56.1%	0.2%	43.7%	59.6%	0.2%	40.2%	59.4%	0.2%	40.5%	100.0%
Developmental Disabilities - Community Administration										
Targeted Case Management Administration	\$ 800,024	\$ 5,866	\$ 1,335,983	\$ 897,699	\$ 5,866	\$ 1,495,070	\$ 900,846	\$ 5,866	\$ 1,500,353	2.0%
Medicaid Benefits	591,614	-	801,642	624,096	-	842,749	622,464	-	842,156	1.2%
Part C and General Fund Benefits	11,393,658	-	30,611,738	11,485,578	-	31,008,815	11,551,099	-	30,941,360	34.7%
General Fund, Title XX, Other Benefits	4,185,169	-	1,678,520	4,324,974	-	1,678,520	4,324,974	-	1,678,520	4.9%
Targeted Case Management Benefits	8,524,336	-	6,037,506	7,633,199	-	10,478,806	7,633,199	-	10,478,806	14.8%
Subtotal Developmental Disabilities-Comm.	346,981	-	932,779	345,919	-	933,841	347,967	-	931,793	1.0%
Percent of Total	25.841,782	5,866	41,398,168	25,311,375	5,866	46,437,801	25,380,459	5,866	46,372,994	58.5%
	38.4%	0.0%	61.6%	35.3%	0.0%	64.7%	35.4%	0.0%	64.6%	100.0%
Other										
DDPAC	\$ 25,000	\$ -	\$ 381,530	\$ -	\$ -	\$ 415,435	\$ -	\$ -	\$ 415,182	0.3%
Disability Determination Services	-	-	4,036,198	-	-	4,406,088	-	-	4,588,502	3.7%
Subtotal Other	25,000	-	4,417,728	-	-	4,821,503	-	-	5,003,684	4.1%
Percent of Total	0.6%	0.0%	99.4%	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%	100.0%
Total Disability Services Division	\$ 43,633,447	\$ 56,025	\$ 67,813,795	\$ 46,930,031	\$ 56,025	\$ 75,166,284	\$ 47,098,164	\$ 56,025	\$ 75,476,302	
Percent of Total	39.1%	0.1%	60.8%	38.4%	0.0%	61.5%	38.4%	0.0%	61.5%	100.0%

Service Elimination and Reductions

The Executive Budget proposes reductions or elimination of the following program resources:

- Visual Services Medical
- Extended Employment Benefits
- Independent Living
- Donated Dental
- FTE
- Community Supports and Supported Living

Each decision package description (included at the end of this document) provides information on the proposed reduction and the number of individuals impacted by the reduction. Legislative Fiscal Division issues and comments follow the description of the decision package.

Refinancing

In recent years refinancing, or changing the source of funding for services from general fund to non-general fund sources (often federal sources) has received a great deal of emphasis. The Developmental Disabilities Program (DDP) has engaged in refinancing efforts for at least the past two biennia. Within DDP, refinancing has generally taken the form of converting general fund expenditures to expenditures funded with federal Medicaid funds that require about a 30 percent state match. The 2001 legislature directed the DDP to refinance services, if possible, and allowed the DDP to use general fund made available due to refinancing to:

- Reduce the waiting list
- Improve wages paid by community providers to direct care workers
- Provide a provider rate increase to community services providers
- Fund existing plans of care for individuals waiting for residential services

The DDP did refinance some services during the 2003 biennium and used general fund available from refinancing to move some individuals from MDC to the community and to provide a provider rate increase.

While the actions taken by the DDP comply with legislative direction, subsequent events, including the change in the financial position of the department and state that resulted in significant services reductions in some publicly funded systems, and the division's request for a supplemental appropriation for MDC, were not envisioned. These and other changes, coupled with the DDP plans to pursue additional refinancing during the 2003 biennium, make review of the previous policy and establishment of policies for the 2003 biennium necessary.

The Legislative Fiscal Division (LFD) has identified a number of refinancing and funding issues within the Executive Budget for DDP. In addition to the issues discussed here, additional discussion of refinancing is included in the agency narrative.

LFD ISSUE

Statutory Compliance: Use of General Fund to Support Medicaid Eligible Recipients and Services

It is legislative staff understanding that historically DDP structured contracts with congregate living providers to include about 15-20 percent general fund, and services for some individuals who were Medicaid eligible were billed to the general fund rather than to federal Medicaid funds. Because of the favorable Medicaid match rate (about 70 percent is paid by federal funds) this means that the division expended more general fund than necessary to provide some services. The general fund saved by billing Medicaid could have been used to enhance services, reduce the waiting list, or alleviate budget shortfalls within the department. The division indicated that effective December 2002, services for all clients living in congregate living services that are Medicaid eligible (have a Medicaid card) will be billed to Medicaid. In addition to the extra resources used, the DDP practice of billing the general fund rather than Medicaid appears to violate provisions of Section 17-2-108, MCA, which requires the expenditure of nongeneral fund money whenever possible before using general fund appropriations. The Executive Budget includes a decision package

**LFD
ISSUE
(Cont.)**

reducing general fund support and increasing federal funds for the division by \$1.8 million per year due to this change in practice.

The Medicaid program typically limits the time period for claiming reimbursement for services provided in previous months. Often this limit is one to two years. Legislative staff has requested the division determine what time period for retroactive billing is applicable to congregate living services. Additional general fund savings may be possible if retroactive billing of Medicaid for services paid by the general fund occurs. If general fund savings can be achieved through retroactive billing of Medicaid the legislature may wish to specify:

- That general fund savings due to retroactive billing be used to offset the supplemental request for MDC and other DPHHS programs.
- That general fund made available through retroactive billing be used to offset program reductions and eliminations within this division and the agency, and specify an agency-wide priority for reinstatement of program reductions and eliminations.
- That general fund made available through retroactive billing must revert to the general fund.

Additionally, the legislature may wish to ask the Legislative Audit Division to conduct a review, including verification of funding for a random sample of clients served by the DDP to determine if further general fund savings might be achieved by correcting inappropriate or inaccurate charging of expenditures to the general fund rather than federal funds.

**LFD
ISSUE**Service Expansion

The division requests an increase in federal funding (\$8.1 million for the biennium) and indicates that this increase in federal authority would not increase future general fund commitments. However, the division plans to use the general fund made available due to refinancing efforts and the additional federal funds to expand and strengthen services. The expansion and strengthening of services is likely to result in future increases in general fund requirements. Actions that increase the volume of services or the reimbursement for services will likely increase the size of future present law adjustments necessary to maintain the program because a larger (expanded) program will be in place.

The legislature may wish to specify:

- Whether or not general fund made available through refinancing may be used within the DDP to:
 - Expand the program
 - Increase provider rates (during the 2003 biennium DDP providers received a 2.0 percent provider rate increase in fiscal 2003, and 9.3 and 5.4 percent increases in fiscal 2002 and 2003, respectively, for direct care worker wage parity)
 - Support increases in expenditures that are of an ongoing nature
- That general fund made available through refinancing be used to offset program reductions and elimination within this division and the agency, and specify an agency-wide priority for reinstatement of program reductions and eliminations
- That general fund made available through refinancing must revert to the general fund. To implement this action, the legislature may wish to decrease general fund appropriations for the division.

**LFD
ISSUE**Service and Rate Reductions may not be Implemented

The Executive Budget includes two decision packages that propose reductions in services and Medicaid provider rates, totaling \$3.2 million general fund for the biennium. However, the division indicates it will seek to create general fund savings by refinancing, rather than implement these two reductions. The department's plan to refinance and continue to provide services and reimburse providers at the fiscal 2003 level poses a different decision for the legislature than represented by the decision packages as included in the budget. The decision packages included in the budget indicate that services will be reduced and provider rates decreased, not that refinancing may be possible so that these reductions are avoided.

Additionally, the division indicates that the amount and inclusion of the Medicaid provider rate reduction in the budget is based upon the additional savings that were needed so that the agency met its targets. At this time, DDP does not have a plan for implementation of a provider rate reduction.

The legislature may wish to:

- Specify whether or not general fund made available through refinancing may be used to maintain these services, rather than the service being eliminated
- Specify that these services are eliminated and for what purpose the general fund made available through refinancing is used. The legislature could choose to use these general fund savings to:
 - Reinstate service reductions elsewhere within DPHHS
 - Lower the level of general fund support for the department
- Specify whether or not general fund savings created by refinancing may be used to maintain provider rates rather than a provider rate reduction being implemented
- Specify that provider rates be reduced and for what purpose the general fund made available through refinancing is used. The legislature could choose to use these general fund savings to:
 - Reinstate service reductions elsewhere within DPHHS
 - Lower the level of general fund support for the department

**LFD
ISSUE**Misstatement of Federal Funds Applicable to Some Decision Packages

Several decision packages included in the Executive Budget do not accurately reflect the funding being sought. For example, federal funds obtained due to refinancing are overstated in some decision packages and understated in other decision packages. Additionally, a decision package requesting additional general fund to replace lost federal funds does not reflect a reduction in federal funds. Because the appropriation level of federal funds may impact application of some appropriation statutes (please refer to the agency narrative for a discussion of excess federal funds and appropriation statutes), the legislature may wish to:

- Adjust the amount of federal funds included in some decision packages to accurately reflect the action proposed in the decision package. Decision packages which appear to contain inaccurate amounts of federal funds include:
 - DP 89 - DDP Federal Authority - requests \$8.1 million federal funds for the biennium
 - DP 82 - DD Funding at Current Level of Services - requests general fund increase due to loss of federal funds but no federal funds decrease is included in this decision package
 - DP 296 - DDP General Fund Reduction due to Refinancing - reduces general fund and increases federal funds \$3.6 million for the biennium due to refinancing with Medicaid - this one-for-one funding switch does not properly reflect the increase in federal Medicaid funds at a 30/70 general fund/federal fund matching ratio
- Approve federal funding as included in the decision packages

**LFD
ISSUE**Refinancing Children's Services

It may be possible for the division to create general fund savings by refinancing some children's services. The division indicated it is reviewing the possibility of obtaining a Medicaid waiver for the provision of some children's services known as Family Education and Support Services (FES). Additionally, legislative staff believe it may be possible to create a program within the Children's Health Insurance Program (CHIP) as a refinancing mechanism. Division staff indicated that they intend to pursue a Medicaid waiver as a preferred refinancing strategy and are in the process of determining how many children receiving FES services are already Medicaid eligible. Division staff think that a Medicaid waiver is preferable to CHIP, because families receiving FES may not be CHIP eligible due to the income limitations of the CHIP program. The division is also researching options to implement a co-payment requirement for some service recipients, including children's services.

Federal Review of Waiver

Montana operates a Human and Community Based Services Waiver (HCBS) under federal Medicaid regulations. A waiver allows the state to waive certain Medicaid provisions and in this case, to provide with federal Medicaid funds, community based services for individuals otherwise eligible for institutional services.

In the fall of 2000 the Centers for Medicare and Medicaid (CMS, formerly known as HCFA) conducted a review of Montana's Medicaid waiver for HCBS for developmentally disabled individuals. The findings of this review included:

- The provider selection process utilized to select waiver service providers violates freedom of choice among providers, and prohibited all qualified providers from participating in the system because only a predetermined number of providers were awarded contracts
- Situations that may compromise the health and safety of clients were observed
- The waiver amendment for services the division refers to as "community supports" had not been approved by CMS, even though the division had begun providing services and billing Medicaid under this waiver amendment
- Direction that the division discontinue expansion of waiver services for adults was given. This restriction has since been lifted.

The department concurred with the majority of the CMS findings and proposed a corrective action plan. The final federal report, federal comments, and acceptance of the corrective action plan were dated April 30, 2001. During the 2001-2003 interim, the DDP has been implementing various segments of the corrective action plan approved by CMS. One of the areas where corrective action is ongoing is related to the selection of providers and provider reimbursement. CMS found that the provider selection process used by DDP violated the freedom of choice provision of Medicaid and prohibited all qualified providers from participating in the system. The department must develop a process that permits all qualified providers to participate in the waiver, and allows recipients "portability" of benefits, or the ability to choose among qualified providers. The DDP is currently working to develop a provider reimbursement methodology that supports "portability" and freedom of choice among providers. It is legislative staff understanding that the DDP hopes to have this new system of reimbursement and portability in place by the end of fiscal 2003. However, the DDP is currently uncertain if the computer programming needed to support this change will be completed in adequate time to implement new processes by June 2003.

**LFD
COMMENT**

The legislature may wish to have the division update the appropriations subcommittee regarding implementation of changes included in the HCBS waiver corrective action plan.

Respite Payment and Wage and Hour Laws

During the course of CMS review of another HCBS waiver for developmentally disabled, CMS identified a violation of Medicaid law and regulation regarding payment of respite care providers. Under the existing system, there were instances where a family paid the respite care provider and then the family was reimbursed by Medicaid through a contracted entity. CMS found this process violates Medicaid law prohibiting direct payment to consumers. As the department implemented actions to comply with Medicaid law and regulation, a number of wage and hour concerns were identified including:

- Respite care services were not paid at minimum wage rates
- If payment was at minimum wage rates, the amount of respite that could be funded would be significantly decreased
- Contracted providers were concerned about acting as the pass through agent and thus entering an employer-employee relationship with all respite care providers

As a result of research and investigation completed regarding the DDP payment of respite care providers, the Children, Families, Health and Human Services legislative interim committee requested a bill be drafted. This bill draft, LC0442:

- Exempts providers of companionship services or respite care for the aged and infirm from wage and hour law
- Exempts providers of companionship services or respite care for the aged and infirm from unemployment insurance and workers' compensation, if the person providing the service is employed directly by the family or legal guardian

While this legislation does not resolve the specific issue identified by CMS (Medicaid payments to consumers), it does clarify some statutory provisions of wage and hour law and its applicability to respite care providers.

The division resolved the Medicaid payment issue by requiring respite care workers be employees of the corporation receiving reimbursement for respite care services and be paid minimum wage.

Medicaid Certification Review

The Medicaid certification review, completed in March 2002, identified issues related to client and staff safety. In response to these survey findings, MDC opened a six bed secure care unit, hired an incident investigator, contracted for independent incident investigations, and implemented processes and procedures to provide for reporting and investigation of potential client-client, client-staff and client self-abuse. Had the division not taken corrective action to remedy the findings of the certification review, MDC's Medicaid certification could have been withdrawn. If MDC fails to meet Medicaid certification requirements the facility is not eligible to receive Medicaid reimbursements. Medicaid reimbursements for services rendered at MDC are used first to repay bonds and the balance is deposited to the general fund. About \$9 million per year from Medicaid reimbursements for MDC services is deposited to the general fund.

Institutional Population

Population Greater than 88 Individuals

For the 2003 biennium the legislature in HB 2 stated that the combined population at the two institutions (Eastmont and MDC) may not exceed 88 individuals at the end of the 2003 biennium. The legislature further stated that if the DSD had a population of more than 88 individuals at the two institutions at the end of the 2003 biennium, the division shall certify that a community residential setting was not available for the individuals remaining in the two institutions. The legislature appropriated \$1.4 million annual funding as one-time-only, with the intention that it be moved from the budget for the two institutions to community services to ensure that the movement of individuals from institutional to community settings would be reviewed by the subsequent legislature. Figure 40 summarizes the costs and population at the two state institutions for the developmentally disabled and provides a comparison of fiscal 2000 and 2002 actual expenditures to the proposed budget for fiscal 2004 and 2005.

During the 2003 biennium, the population at the two institutions has been stable, averaging 125 (92 at MDC and 33 at Eastmont). The department does not expect to decrease the population to 88 by the end of the biennium as specified in HB 2. However, the division has plans to utilize general fund savings created by refinancing efforts to move 18 individuals from the two institutions to community settings by the end of fiscal 2003, and five non-seriously developmentally disabled individuals were moved from MDC in fiscal 2002.

Population Mix

During the last legislative session, department staff began informing the legislature that the population mix at MDC was changing. Staff indicated that a portion of the population at MDC was exhibiting more physically aggressive and criminal type behaviors. During the 2003 biennium, division staff reported to the Children, Families, Health and Human Services Interim (CFHHS) committee that MDC had received its first criminal commitment. That is, for the first time an individual was committed to MDC via criminal statutes and for a specified duration.

Legislative staff reviewed the court order that utilized criminal commitment statutes. Per the CFHHS committee's request, legislation has been drafted clarifying the criminal statutes and their application to persons with developmental disabilities. LC0443 proposes clarifications to relevant criminal statutes and provides that if the court finds the individual unfit to proceed in the criminal court system, criminal charges are to be dismissed and the prosecutor shall pursue commitment via the civil commitment process.

It appears that the population at MDC is becoming similar to that of the Montana State Hospital in that MDC is beginning to house a portion of the population that is forensic in nature. This change in population mix creates new challenges and concerns, particularly when the vulnerable nature of some MDC residents is considered. It is likely that this change in population mix is the genesis of changes made at MDC as a result of findings of the Medicaid certification review.

LFD COMMENT

The legislature may wish to have the division provide information regarding how the division plans to deal with the changes in population characteristics at MDC.

Figure 40
Disability Services Division
Summary of Institutional Costs

Item	Actual Fiscal 2000	Actual Fiscal 2002*	Requested Fiscal 2004	Requested Fiscal 2005
<u>Montana Developmental Center</u>				
FTE	296.6	296.64	323.12	323.12
Personal Svcs	10,062,574	10,766,777	12,184,873	12,240,675
All Other*	1,256,259	1,510,746	1,990,474	2,003,862
Total	\$ 11,318,833	\$ 12,277,523	\$ 14,175,347	\$ 14,244,537
Population	84	92	92	92
Costs Per Person	\$ 134,748	\$ 133,451	\$ 154,080	\$ 154,832
Costs Per Day	\$ 369	\$ 366	\$ 422	\$ 424
Percent Increase			15.46%	0.49%
<u>Eastern Montana Human Services Center</u>				
FTE	97.43	97.47	97.47	97.47
Personal Svcs	3,263,051	3,151,271	3,595,308	3,625,156
All Other	501,193	465,059	581,037	579,617
Total	\$ 3,764,244	\$ 3,616,330	\$ 4,176,345	\$ 4,204,773
Population	47	33	33	33
Costs Per Person	\$ 80,090	\$ 109,586	\$ 126,556	\$ 127,417
Costs Per Day	\$ 219	\$ 300	\$ 347	\$ 349
Percent Increase			15.49%	0.68%
<u>Combined</u>				
FTE	394.03	394.11	420.59	420.59
Personal Svcs	13,325,625	13,918,048	15,780,181	15,865,831
All Other	1,757,452	1,975,805	2,571,511	2,583,479
Total	\$ 15,083,077	\$ 15,893,853	\$ 18,351,692	\$ 18,449,310
Population	131	125	125	125
Costs Per Person	\$ 115,138	\$ 127,151	\$ 146,814	\$ 147,594
Costs Per Day	\$ 315	\$ 348	\$ 402	\$ 404
Percent Increase			15.46%	0.53%
Notes:				
*Does not include bond repayment.				
Fiscal 2002 amount is base budget, plus expenditures considered one-time-only, and supplemental appropriation transfer from second year of the biennium to the first year of the biennium. FTE for fiscal 2002 does not include FTE supported by one-time-only appropriation.				

Pending Legal Actions

Currently, there are two legal actions pending that seek changes and increased funding for services for the developmentally disabled.

MAP Lawsuit

In 1996 the Montana Advocacy Program (MAP) filed the Travis D. class action lawsuit. Defendants in the Travis D. lawsuit include the state of Montana, Montana Developmental Center, Eastmont Human Services Center, and key personnel. The legal basis for this lawsuit includes the integration mandate of the Americans with Disabilities Act (ADA), equal protection rights of the 14th amendment, the Social Security Act (Medicaid), and the right to due process. The Montana Advocacy Program seeks to protect the civil rights of individuals with disabilities, and seeks the provision of appropriate community services for individuals with disabilities. The Montana Advocacy Program put this lawsuit on hold while participating in the Developmental Disabilities Future Study group during the 1999 - 2001 interim. Once the study was complete the lawsuit was taken off hold and has been proceeding, but remains unresolved.

MAIDS Lawsuit

In September 2002, the Montana Association for Independent Disability Services, Inc. (MAIDS) and several individuals with developmental disabilities filed suit. Defendants in the MAIDS lawsuit include the Department of Public Health and Human Services and key department and state personnel. MAIDS is a non-profit organization comprised of entities providing community-based services to individuals with developmental disabilities. This suit alleges that the disparity in wages and benefits paid to employees of community based providers verses the wages and benefits paid to employees of state institutions has resulted in irreparable and unnecessary harm to the plaintiffs. The plaintiffs allege that several statutory and constitutional provisions have been violated and seek: 1) to have the wage and benefit disparity between employees of state run institutions and community providers eliminated, and 2) to have uniform Medicaid reimbursement rates established.

Potential Costs

While it is probably not feasible to calculate the costs to the state of the additional services and payments that might be necessitated if the plaintiffs prevail, it is likely that any actions the state would be required to implement under court order would likely cost millions of dollars. In fiscal 2002 Montana spent \$67.2 million (\$25.8 million general fund) to provide community-based services to 3,993 people, an expenditure average of \$16,840 per person. The division estimates that during the 2005 biennium, 724 individuals will not be receiving any services and will be waiting for services. If these 724 are served at an average cost of \$16,840, it would cost \$12.2 million. Additionally, the division estimates that 830 individuals will be receiving some services and waiting to receive more services. If these 830 individuals are served at a cost of \$10,000 per person, it would cost \$8.3 million. Thus, over \$20 million additional funding would be needed just to serve individuals on waiting lists without considering: 1) the additional costs to provide services in the community rather than institutions; and 2) the costs of increasing direct care worker wages.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 43,633,447	39.1%	\$ 46,930,031	38.4%	\$ 47,098,164	38.4%
02035 Mdc Vocational	47,642	0.0%	47,642	0.0%	47,642	0.0%
02475 Ddp Conference	5,866	0.0%	5,866	0.0%	5,866	0.0%
02923 Donated Funds-Mdc	1,933	0.0%	1,933	0.0%	1,933	0.0%
02925 Donations-Eastmont	584	0.0%	584	0.0%	584	0.0%
03024 Soc Sec - Trust Funds	75,547	0.1%	231,699	0.2%	231,699	0.2%
03553 84.128 - Handicapped Migrat 90	141,388	0.1%	141,388	0.1%	141,388	0.1%
03554 84.169 - Independent Living 90	288,917	0.3%	290,109	0.2%	290,019	0.2%
03555 84.177 - Indep Living Old Blin	302,192	0.3%	296,666	0.2%	296,546	0.2%
03556 84.181 - Part H - Early Interv	1,678,520	1.5%	1,678,520	1.4%	1,678,520	1.4%
03557 84.187 - Vic Sup Employment	283,085	0.3%	283,085	0.2%	283,085	0.2%
03558 84.224 - Mon Tech 100%	345,559	0.3%	345,559	0.3%	345,559	0.3%
03559 84.265 - In Service Training 9	38,908	0.0%	38,916	0.0%	38,936	0.0%
03577 93.630 - Ddpac Adm	381,530	0.3%	415,435	0.3%	415,182	0.3%
03579 93.667 - Ssbj - Benefits	5,964,076	5.3%	5,964,076	4.9%	5,964,076	4.9%
03580 93.778 - Med Adm 50%	73,430	0.1%	73,430	0.1%	73,430	0.1%
03583 93.778 - Med Ben Fmap	42,476,337	38.1%	48,746,013	39.9%	48,864,036	39.8%
03588 93.802 - Disabil Deter Adm 100	4,036,198	3.6%	4,406,068	3.6%	4,588,502	3.7%
03599 03 Indirect Activity Prog 10	2,137,625	1.9%	2,337,819	1.9%	2,342,509	1.9%
03604 84.126 - Rehab-Sec110 A 78.7%	9,590,483	8.6%	9,917,501	8.1%	9,922,815	8.1%
Grand Total	\$ 111,503,267	100.0%	\$ 122,152,340	100.0%	\$ 122,630,491	100.0%

As illustrated in the table above, 2005 biennium annual general fund support for the division increases more than \$3 million above the fiscal 2002 base. During fiscal 2002, 39 percent of the division's funding came from the general fund. The proposed budget provides more than 38 percent of the funding for the division from the general fund. The general fund support as a percentage of total funds decreases slightly due to increases in the federal funds. As stated, the division has implemented a number of "refinancing" strategies to maximize the recovery of federal funds. The division is also supported by a small amount of state special revenue. However, the largest share of the division's funding, almost 62 percent, comes from federal sources. The largest sources of federal funds and their funding ratio of state to federal funds are the following:

- Medicaid provides almost 40 percent of the division's funding, benefits are matched at the Federal Medical Assistance Participation rate (FMAP) of about 30 percent state funds and 70 percent federal funds, and administrative costs are shared equally between state and federal funds
- Vocational Rehabilitation, Section 110 provides 8 percent of the division's funding, and is 19 percent state funds to 81 percent federal funds
- Title XX, Social Services Block Grant provides 5 percent of the division's funding and has no state match requirement
- Disability Determination provides almost 4 percent of the division's funding and has no state match requirement

Figure 41
2003 Biennium Compared to 2005 Biennium
Disability Services Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	619.71	630.69	10.98	
Personal Services	\$ 41,912,076	\$ 49,727,969	\$ 7,815,893	40.2%
Operating	10,617,409	12,997,628	2,380,219	12.2%
Equipment	88,402	106,710	18,308	0.1%
Benefits/Claims	172,658,705	181,926,670	9,267,965	47.7%
Debt Service	67,724	23,854	(43,870)	-0.2%
Total Costs	<u>\$ 225,344,316</u>	<u>\$ 244,782,831</u>	<u>\$ 19,438,515</u>	<u>100.0%</u>
General Fund	\$ 86,332,606	\$ 94,028,195	\$ 7,695,589	39.6%
State Special	2,118,578	112,050	(2,006,528)	-10.3%
Federal Funds	<u>136,893,132</u>	<u>150,642,586</u>	<u>13,749,454</u>	<u>70.7%</u>
Total Funds	<u>\$ 225,344,316</u>	<u>\$ 244,782,831</u>	<u>\$ 19,438,515</u>	<u>100.0%</u>
Percent Increase			8.6%	

Biennial Comparison

As illustrated in Figure 41, 2005 biennium funding for the division increases 8.6 percent when compared to the 2003 biennium. General fund support for the division increases \$7.7 million or 8.9 percent. The majority of the division's funding supports benefits and claims paid on behalf of individuals, and personal services, which represent 47.7 and 40.2 percent of the division's funding, respectively.

Present Law Adjustments										
Fiscal 2004					Fiscal 2005					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				3,671,575						3,746,880
Vacancy Savings				(961,244)						(964,245)
Inflation/Deflation				23,460						29,493
Fixed Costs				258,231						275,655
Total Statewide Present Law Adjustments				\$2,992,022						\$3,087,783
DP 86 - Maintain MDC Certification	12.00	368,921	0	0	368,921	12.00	369,111	0	0	369,111
DP 87 - DDP Change in FMAP	0.00	(38,247)	0	38,247	0	0.00	31,538	0	(31,538)	0
DP 89 - DDP Federal Authority	0.00	0	0	4,050,000	4,050,000	0.00	0	0	4,050,000	4,050,000
DP 90 - DSD Base Adjustments	0.00	23,560	0	60,764	84,324	0.00	27,185	0	69,997	97,182
DP 91 - MDC Base Adjustments	0.00	671,110	0	0	671,110	0.00	671,110	0	0	671,110
DP 92 - EHSC Base Adjustments	0.00	311,224	0	0	311,224	0.00	311,565	0	0	311,565
DP 93 - Annualize Tuition Increases	0.00	28,880	0	106,705	135,585	0.00	28,880	0	106,705	135,585
DP 94 - Annualize DDP Wage Parity	0.00	894,580	0	867,639	1,762,219	0.00	896,483	0	865,736	1,762,219
DP 96 - Annualize VR Provider Rate Increase	0.00	58,149	0	103,114	161,263	0.00	58,149	0	103,114	161,263
DP 97 - DDS Base Adjustments	0.00	0	0	247,470	247,470	0.00	0	0	430,627	430,627
DP 98 - MDC and EHSC Medicaid Authority	0.00	0	0	1,430,237	1,430,237	0.00	0	0	1,617,757	1,617,757
DP 290 - Eliminate Visual Services Medical	0.00	(84,834)	0	0	(84,834)	0.00	(84,834)	0	0	(84,834)
DP 291 - Reduce Extended Employment Benefits	0.00	(270,639)	0	0	(270,639)	0.00	(270,639)	0	0	(270,639)
DP 292 - Eliminate Independent Living Parity	0.00	(228,766)	0	0	(228,766)	0.00	(228,766)	0	0	(228,766)
DP 293 - Eliminate Donated Dental	0.00	(25,000)	0	0	(25,000)	0.00	(25,000)	0	0	(25,000)
Total Other Present Law Adjustments										
	12.00	\$1,708,938	\$0	\$6,904,176	\$8,613,114	12.00	\$1,784,782	\$0	\$7,212,398	\$8,997,180
Grand Total All Present Law Adjustments					\$11,605,136					\$12,084,963

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 86 - Maintain MDC Certification - The executive requests \$738,032 general fund to support 12.00 FTE and contracted services at the Montana Developmental Center (MDC). In response to deficiencies identified during a Medicaid certification review, the department determined that a six bed secure-care unit and a contracted investigator to investigate suspected and potential abuse situations were needed. The department hired additional staff and implemented these changes during fiscal 2002.

In March 2002, MDC underwent a Medicaid certification survey. The survey identified deficiencies in the area of client and staff safety and indicated that without corrective action, MDC could be decertified as a Medicaid participating provider. Loss of certification would result in the state no longer being able to claim Medicaid reimbursement for the services provided at MDC. The Medicaid reimbursements received by MDC are used to repay MDC building bond debt and the balance remaining (about \$9 million annually) is deposited in the general fund.

**LFD
ISSUE**

Please refer to the program narrative for a discussion of the population mix served by MDC.

**LFD
ISSUE**Duplication of Cost

Funding for contracted investigator services of \$25,000 per year are duplicated and included in both this decision package and DP 95 MDC Direct Care FTE.

DP 87 - DDP Change in FMAP - This decision package includes a reduction of \$6,709 general fund and a corresponding increase in federal funds for the biennium due to anticipated changes in the FMAP rate.

DP 89 - DDP Federal Authority - The executive requests \$8.1 million federal funds for the biennium that will be expended if the department can successfully increase the amount of federal funds supporting services without increasing general fund requirements, and to annualize the impact of Medicaid refinancing efforts that were partially completed in fiscal 2002. The additional funding would be used to strengthen and expand services.

**LFD
ISSUE**

Please refer to the program narrative discussion of refinancing.

DP 90 - DSD Base Adjustments - The department requests \$50,745 general fund and \$181,506 federal funds to annualize rent increases that occurred in fiscal 2002. The additional funding is for the offices located in Billings, Kalispell, Bozeman, Butte, Miles City, Great Falls, and Havre.

DP 91 - MDC Base Adjustments - The department requests \$1,342,220 general fund for personal service costs not included in the base budget and to replace equipment. This funding would be used to support the costs of holidays worked, overtime and differential pay, and benefit costs associated with the additional personal services costs. This request also includes a \$288,000 budget reduction to reflect the continuation of the reductions made during fiscal 2003.

DP 92 - EHSC Base Adjustments - The department requests \$622,789 general fund for personal services, contracted services, operating costs increases, and to replace equipment. Among the expenditures to be supported by these funds are: holidays worked, differential, overtime, substitute staff, and a projected annual increase of \$10,261 in natural gas costs. Equipment proposed for replacement includes: a telephone system, computers, a dishwasher, and a medication cart. This request is decreased by \$17,000 to continue budget reductions ordered by the Governor during fiscal 2003.

DP 93 - Annualize Tuition Increases - The department requests \$57,760 general fund and \$213,410 federal funds to annualize the costs of tuition increases that were effective July 1, 2003.

DP 94 - Annualize DDP Wage Parity - The department requests \$1,791,063 general fund and \$1,733,375 federal funds to annualize the costs of direct care worker wage increases that were effective July 1, 2003.

DP 96 - Annualize VR Provider Rate Increase - The department requests \$116,298 general fund and \$206,228 federal funds to annualize the costs of a 2.5 percent provider rate increase that was effective July 1, 2003.

DP 97 - DDS Base Adjustments - The department requests \$678,097 in federal funds to support an anticipated 10 percent per year increase in DDS workload. The funding in this request will be used for overtime, differential pay that is paid to DDS employees for achieving their performance goals outlined by the Social Security Administration, on-the-job training for a person who is developmentally disabled, contracted medical consultants (as mandated by federal law) to

review cases cleared through the DDS, copies of medical records and/or medical examination costs for disability claimants, claimant travel to required appointments, and rent.

DP 98 - MDC and EHSC Medicaid Authority - The department requests \$3,047,994 federal funds for the biennium to annualize expected Medicaid reimbursement for the two institutions. These are the appropriated dollars that are used in transferring expenditures from the general fund to Medicaid for both facilities. The Medicaid revenues are then deposited into the general fund. The amounts are based on projected revenues for fiscal 2004 and 2005 above the fiscal 2002 base.

DP 290 - Eliminate Visual Services Medical - This decision package removes \$169,668 general fund for the biennium supporting the visual services medical program. Per the department, approximately 72 Montanans who experience eye conditions that require medical attention and who do not qualify for other medical assistance will not be served each year.

DP 291 - Reduce Extended Employment Benefits - This decision package removes \$541,278 general fund for the biennium supporting extended employment benefits. This action will reduce extended employment benefits by 32 percent. Per the department, this reduction impacts services to about 68 individuals.

DP 292 - Eliminate Independent Living Parity - This decision package removes \$457,532 general fund for the biennium supporting independent living services. Per the department services to over 396 individuals (in rural areas of eastern Montana) will be eliminated and there will be a reduction of nine staff at independent living centers.

DP 293 - Eliminate Donated Dental - This decision package removes \$50,000 general fund for the biennium supporting donated dental services. Per the department, approximately 123 individuals will not receive services from volunteer dentists and labs due to this reduction.

New Proposals										
Program	Fiscal 2004					Fiscal 2005				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 82 - DD Funding at Current Level of Service										
10	0.00	1,899,878	0	0	1,899,878	0.00	1,899,878	0	0	1,899,878
DP 88 - DDPAC Federal Grant Increase										
10	0.00	0	0	25,900	25,900	0.00	0	0	25,900	25,900
DP 95 - MDC Direct Care FTE										
10	20.00	932,864	0	0	932,864	20.00	933,277	0	0	933,277
DP 285 - FTE Reduction										
10	(9.02)	(216,506)	0	(65,067)	(281,573)	(9.02)	(217,440)	0	(64,204)	(281,644)
DP 294 - Eliminate Community Supports and Reduce SL										
10	0.00	(1,424,395)	0	(1,408,700)	(2,833,095)	0.00	(1,424,395)	0	(1,408,700)	(2,833,095)
DP 296 - DDP GF Reduction Due to Refinancing										
10	0.00	(1,800,000)	0	1,800,000	0	0.00	(1,800,000)	0	1,800,000	0
DP 297 - DDP Medicaid Provider Rate Reduction										
10	0.00	(189,850)	0	(510,187)	(700,037)	0.00	(193,556)	0	(508,499)	(702,055)
Total	10.98	(\$798,009)	\$0	(\$158,054)	(\$956,063)	10.98	(\$802,236)	\$0	(\$155,503)	(\$957,739)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 82 - DD Funding at Current Level of Service - The department requests \$3,799,756 general fund for the biennium to replace TANF fund transferred to Title XX and Title XX funds that will not be available in the 2005 biennium. Federal funding for Title XX grant has been reduced.

**LFD
ISSUE**Loss of Federal Funds

While the decision package has not been constructed in a manner that illustrates it, this decision package represents a funding switch. The general fund requested in this decision package replaces \$2.8 million federal Temporary Assistance for Needy Families (TANF) and about \$1.0 million Title XX, Social Services Block Grant (SSBG) funds that will not be available in the 2005 biennium. For the past several years, federal funding for Title XX, SSBG has been declining. The funding replacement included in this decision package represents an additional decrease in the federal grant allocated to Montana. For a discussion of TANF funds and transfers of TANF funds, please refer to the narrative for the Human and Community Services Division.

In order to accurately reflect the impact of this decision package on the budget, the legislature may wish to reduce federal TANF and Title XX funds included in the Executive Budget by \$2.8 million and \$1.0 million for the biennium, respectively.

Please refer to the agency narrative for information regarding the impact of excess federal funds on appropriation statutes.

DP 88 - DDPAC Federal Grant Increase - The department requests \$51,800 federal funds for the biennium to support an increase in the Developmental Disabilities Planning and Advisory Council (DDPAC) grant award.

DP 95 - MDC Direct Care FTE - This request includes \$1,866,141 general fund for 20.0 FTE and operating costs increases for the biennium for the Montana Developmental Center (MDC). A portion of MDC's funding for the 2003 biennium was specified as one-time-only by the legislature. The department requests that this funding be continued for the 2005 biennium and that funding for operating cost increases be provided. Operating cost increases in this decision package include:

- Solid waste disposal \$30,000
- Contracted repair and maintenance for the Aquatic Training Facility \$8,000
- Contracted services for investigation of reports of client-to-client aggressions, unobserved client injuries, and alleged incidents of abuse or neglect be conducted by an independent investigator \$50,000
- Food \$405,054
- Utilities \$7,828
- Repairs \$7,800.

**LFD
ISSUE**

Please refer to the program narrative for a discussion of the institutional population.

**LFD
ISSUE**Duplicated Cost

Funding for contracted investigator services of \$25,000 per year are duplicated and included in both this decision package and PL 86 MDC Certification. Division staff indicated that the amount of the reduction in this decision package related to continuation of the Governor's reductions would have been less if this duplication of costs had not been included in this decision package. The division proposes using this funding to purchase replacement vehicles and components for the cook/chill system.

DP 285 - FTE Reduction - This decision package includes a reduction of 9.02 FTE to achieve savings of \$433,946 general fund, \$563,217 total funds for the biennium.

**LFD
COMMENT**

This reduction proposes to eliminate positions that were left vacant in the base budget year due to funding shortages. Of the positions to be eliminated, 6.52 FTE are assigned to the two state institutions for the developmentally disabled and 2.50 FTE are employed elsewhere within in the developmental disabilities program. None of the FTE proposed for elimination are employed in the Vocational Rehabilitation program. The positions that will be eliminated include:

- DDP regional manager (1.00 FTE)
- DDP program officer (1.00 FTE)
- DDP case manager (0.50 FTE)
- MDC administrative support (1.00 FTE)
- MDC custodian (1.00 FTE)
- MDC occupational therapist (1.00 FTE)
- MDC dental assistant (0.50 FTE)
- EHSC habilitation aide (1.00 FTE)
- MDC laundry worker (0.17 FTE)
- MDC maintenance worker (1.00 FTE)
- MDC Residential Care Aide (0.85 FTE).

DP 294 - Eliminate Community Supports and Reduce SL - This decision package removes \$2,848,790 general fund (\$5,666,190 total funds) for the biennium by reducing community supports and supported living services to 426 individuals with developmental disabilities.

**LFD
ISSUE**

Please refer to the program narrative discussion of refinancing.

DP 296 - DDP GF Reduction Due to Refinancing - This decision package decreases general fund by \$3.6 million and increases federal Medicaid funds by a like amount. The savings will be realized because clients in congregate living settings whose services were previously paid by the general fund, will now be billed to Medicaid. The department implemented this refinancing effort in mid-fiscal 2003.

**LFD
ISSUE**

Understatement of Federal Funds

The federal Medicaid funds that will be received due to this "refinancing" initiative are understated in this decision package. Because federal Medicaid funds are reimbursed to Montana on a state-federal funds ratio of about 30 percent state fund and 70 percent federal fund, about \$9.7 million of the federal Medicaid funds that can be obtained with \$3.6 million of matching general fund. The federal funds in this decision package are understated by approximately \$6.1 million for the biennium. The department indicated that a portion of the funds requested in DP 89 will also be used to support this decision package.

**LFD
ISSUE**

Please refer to the program narrative for additional information on refinancing.

DP 297 - DDP Medicaid Provider Rate Reduction - This decision package reduces general fund \$383,406 and total funds \$1,402,092 due to reductions in payments to Medicaid providers.

**LFD
ISSUE**

Please refer to the discussion of refinancing in the program narrative.

Other Issues**Income Levels of Non-Medicaid Eligible Service Recipients**

The 2001 legislature directed the Disability Services Division to complete a report on the impact of applying income criteria to determine eligibility for developmental disabilities program services and benefits on individuals, the waiting list for services, and the budget of the developmental disabilities program. Also, the legislature stated that the report to the Legislative Finance Committee should include, by age group and residential setting, the number and value of services provided to non-Medicaid eligible recipients with incomes at or below 200 percent of the federal poverty level and with incomes at or below 150 percent of the federal poverty level.

To comply with this requirement the department developed two surveys, one for children's services and one for adult services. Case management and provider staff assisted the department in collecting the information requested on this survey. Selected information from this survey is summarized in Figure 41.

Figure 41 Summary of Developmental Disabilities Program Survey Income Levels of Non-Medicaid Funded Service Recipients						
Description	Income Under 100% of Federal Poverty Level	Income Under 150% of Federal Poverty Level	Income Under 200% of Federal Poverty Level	Income Over 200% of Federal Poverty Level	Did Not Respond to Survey	Total
Number Adults	50	89	37	20	27	223
Percent of Total	22.4%	39.9%	16.6%	9.0%	12.1%	100.0%
Costs	\$ 893,983	\$ 1,794,344	\$ 608,463	\$ 371,846	\$ 454,866	\$ 4,123,502
Percent of Total	21.7%	43.5%	14.8%	9.0%	11.0%	100.0%
Number Children	132	178	149	213	155	827
Percent of Total	16.0%	21.5%	18.0%	25.8%	18.7%	100.0%
Costs	\$ 762,626	\$ 951,042	\$ 866,821	\$ 1,417,554	\$ 543,343	\$ 4,541,386
Percent of Total	16.8%	20.9%	19.1%	31.2%	12.0%	100.0%

A total of 223 adults who received \$4.1 million of services were included in the adult survey. Among this group, 27 individuals (12 percent) did not respond to the survey and 146 (65 percent) reported having income greater than the federal poverty level. The remainder of the group, 50 individuals, who received \$0.9 million of services, reported having income levels less than the federal poverty level.

The families of 827 children that received \$4.5 million of services were included in the children/family survey. Among this group, 155 families (19 percent) did not respond to the survey and 540 families (65 percent) reported having income greater than the federal poverty level. The remainder, 132 families (16 percent) who received \$0.8 million of services, reported having incomes at or below the federal poverty level.

Generally, programs administered by DPHHS employ income, assets and other criteria in addition to clinical criteria to determine those who are eligible to receive services from publicly funded systems. Exceptions to this general policy exist because of federal regulatory requirements. For example, income and asset tests are not used to determine which children/families receive child support enforcement services because federal regulation requires that the division provide services to anyone who applies. On the other hand, as a condition of participation in some publicly funded service

systems, cooperation with child support enforcement for the purpose of costs recovery is mandated, including for families receiving cash assistance and children receiving federal Title IV-E funded foster care services.

The developmental disabilities program has been relatively unique among the department's programs, operating on a philosophy that all who have a developmental disability are eligible for services regardless of their financial ability to obtain services without public funding. While many envision this an ideal system, the reality of state finances may not be able to support this vision.

**LFD
ISSUE**Consistent use of Income and Asset Test to Determine Eligibility for Publicly Funded Services

The legislature may wish to adopt and apply policies similar to those used in other publicly funded systems to the developmental disabilities system. Among the policies adopted and implemented in other publicly funded service systems is the utilization of income and asset criteria to determine eligibility for publicly funded services. The legislature may wish to adopt similar income and asset criteria and apply them to the process of determining eligibility for publicly funded developmental disability services. Applying income and/or asset testing to determine eligibility for services in this system could be modeled after the criteria used in various other programs within the department. For example,

- In order to be eligible for the Children's Health Insurance Program (CHIP) the family must have applied for and been denied Medicaid coverage
- Many programs including Medicaid, mental health services and childcare services require the recipient to share in the cost of services through co-payment requirements
- Many programs require that the custodial parent cooperate with and assign child support to the state, so that the state might recover some of the costs of providing services
- Individuals or families with resources above a certain level (other than a primary home and one car, which may be exempt) are often not eligible for publicly funded services such as Medicaid, CHIP, and the Mental Health Services Plan (MHSP)
- Eligibility for the MHSP, some TANF funded programs and CHIP is dependent upon income being no greater than 150 percent of the federal poverty level.
- Eligibility for TANF cash assistance benefits is currently based upon countable income levels at or below about 40.5 percent of the federal poverty level.
- Eligibility for childcare subsidies is based upon income levels up to 150 percent of the federal poverty level, with parents responsible for a co-payment and priority for services given to TANF families, teen parents, and those with the lowest income level

Elements of eligibility from a variety of programs could be combined to establish unique financial eligibility criteria for developmental disabilities services. The legislature may wish to select criteria from the examples above to be utilized to determine eligibility for developmental disability services. If the legislature wishes to direct the department to implement income, resources or other criteria to determine eligibility for publicly funded developmental disabilities services, guidelines should be provided to the department in statute.

In addition to achieving more consistency among programs, the use of income and resource criteria to determine eligibility for publicly funded services might be employed as a strategy to limit the growth of expenditures for services.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	182.54	11.00	0.90	194.44	11.00	0.90	194.44	194.44
Personal Services	5,922,966	1,546,645	35,826	7,505,437	1,572,114	35,892	7,530,972	15,036,409
Operating Expenses	4,114,978	453,254	142,142	4,710,374	486,019	149,645	4,750,642	9,461,016
Equipment	29,188	44,166	3,000	76,354	44,006	0	73,194	149,548
Grants	6,733,625	475,644	303,000	7,512,269	475,644	303,000	7,512,269	15,024,538
Benefits & Claims	156,816,094	14,409,817	(64,296)	171,161,615	18,399,710	2,851,010	178,066,814	349,228,429
Transfers	0	0	0	0	0	0	0	0
Debt Service	17,726	0	0	17,726	0	0	17,726	35,452
Total Costs	\$173,634,577	\$16,929,526	\$419,672	\$190,983,775	\$20,977,493	\$3,339,547	\$197,951,617	\$388,935,392
General Fund	43,176,672	2,745,891	(2,185,068)	43,737,495	3,935,352	(2,451,763)	44,660,261	88,397,756
State/Other Special	7,494,929	1,621,722	1,672,292	10,788,943	1,623,987	2,715,323	11,834,239	22,623,182
Federal Special	122,962,976	12,561,913	932,448	136,457,337	15,418,154	3,075,987	141,457,117	277,914,454
Total Funds	\$173,634,577	\$16,929,526	\$419,672	\$190,983,775	\$20,977,493	\$3,339,547	\$197,951,617	\$388,935,392

Program Description

The Senior and Long Term Care Division plans, administers, and provides publicly-funded long-term care services for Montana's senior citizens and persons with physical disabilities. In addition, the division provides education and support regarding aging and long-term care issues to Montanans of all ages. The division makes services available through six major programs: 1) The Office on Aging provides meals, transportation, public education, information and assistance, long-term care ombudsman, and other services; 2) Medicaid Community Services Program pays for in-home, assisted living, and other community-based services to Medicaid-eligible individuals as an alternative to nursing home care; 3) Medicaid Nursing Facility Program pays for care to Medicaid-eligible individuals in 97 Montana nursing homes; 4) Protective services, including the investigation of abuse, neglect, and exploitation, are provided by adult protective services social workers; 5) Skilled nursing facility care is provided to veterans at the 105-bed Montana Veterans' Home (MVH) in Columbia Falls and the 80-bed Eastern Montana Veterans' Home in Glendive; and 6) the State Supplemental Payment Program pays for a portion of the room and board costs for SSI eligible individuals residing in designated residential care facilities.

Program Narrative

Senior and Long Term Care Division Major Budget Highlights	
○ Total increase of \$42 million comparing each year of the 2005 biennium to base budget expenditures, with a net increase of \$2 million general fund ○ Medicaid eligibility reductions estimated to affect 511 persons receiving nursing home services ○ A net increase of \$33 million total funds, including \$2 million general fund, for Medicaid services with the following expansions and contractions: • Increased caseloads • Expansion of the nursing home IGT (\$19 million federal and state special revenue) • Expansion of the Home and Community Based waiver by 30 slots • Reductions in eligibility	

• Elimination of the Medicaid hospice program • Elimination of in-home therapy services for persons in the Medicaid waiver • Provider rate reductions ○ Other reductions include: • Aging services community services reductions • Reductions in APS services and abuse prevention grants ○ Increases of \$3.3 million federal and state special revenue for veterans' homes, including funding for 10.4 FTE to staff the special care unit at MVH and to deal with increasing patient acuity and service needs
Major LFD Issues
○ Nursing home present law caseload (bed days) continues to decline, although at a much slower rate than previous biennia ○ Veterans' homes cigarette tax ending fund balance: • Some issues are mutually exclusive • Structural imbalance and DPHHS recommendations • Long Range Building project potentially should not be funded from cigarette tax revenue • One-time use of ending fund balance to offset general fund cost of Medicaid nursing home services and mental health services provided to veterans • Use of ending fund balance if federal revenue and private revenue are insufficient to fund 2005 biennium costs ○ Potential cost shift due to elimination of hospice not netted against executive cost saving estimates

The Senior and Long Term Care Division (SLTCD) 2005 biennium budget request is \$22 million higher than the 2003 biennium, but \$0.9 million general fund lower. As in other divisions with significant Medicaid components, this budget request is an anomaly compared to recent history. The reduction in general fund between the two biennia is due to proposed Medicaid eligibility changes that make some persons currently in Medicaid nursing home services ineligible for such services, proposed provider rate reductions, and elimination and/or reduction of programs.

As illustrated in Figure 42, 2005 biennium funding for the division increases 6 percent when compared to the 2003 biennium. General fund support for the division remains essentially the same. The majority of the division's funding, 73 percent, supports personal services, while the division's remaining funding supports operating costs.

Benefit and grant budgets are the most significant share of the increase at 84 percent. Personal services increase due to annualization of fiscal 2003 pay plan increases, vacancy savings during fiscal 2002, and phasing in of staffing for the special care unit at MVH during fiscal 2002.

Federal funds comprise 77 percent of the increase and state special revenue funds the balance. Federal and state special revenue funds increase due to increases in the Medicaid nursing home intergovernmental transfer (IGT) program and veterans' home increases.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Figure 42
2003 Biennium Compared to 2005 Biennium
Director's Office

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	47.00	49.75	2.75	
Personal Services	\$ 4,365,410	\$ 4,639,843	\$ 274,433	24.6%
Operating Costs	5,113,121	5,999,369	886,248	79.6%
Equipment	8,948	0	(8,948)	-0.8%
Grants	91,779	45,792	(45,987)	-4.1%
Debt Service	37,612	45,550	7,938	0.7%
Total Costs	\$ 9,616,870	\$ 10,730,554	\$ 1,113,684	100%
General Fund	\$ 2,871,211	\$ 2,071,492	\$ (799,719)	-71.8%
State Special	2,480,869	3,959,992	1,479,123	132.8%
Federal Funds	4,264,790	4,699,070	434,280	39.0%
Total Funds*	\$ 9,616,870	\$ 10,730,554	\$ 1,113,684	100%
Percent Increase			11.6%	

Program Funding Table
Senior & Long-Term Care

Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 43,176,672	24.9%	\$ 43,737,495	22.9%	\$ 44,660,261	22.6%
02023 Private Ins. Medicaid Reim.-Ve	2,022,840	1.2%	2,231,185	1.2%	2,258,510	1.1%
02032 Vets-I&I Lease	5,000	0.0%	5,000	0.0%	5,000	0.0%
02053 Medicaid Nursing Home Match	3,697,565	2.1%	5,689,096	3.0%	6,738,413	3.4%
02260 Cigarette Tax Revenue	915,666	0.5%	1,715,940	0.9%	1,681,255	0.8%
02497 Over \$600,000 Lien & Estate	150,079	0.1%	384,890	0.2%	383,852	0.2%
02796 Site Conference	-	-	59,053	0.0%	63,430	0.0%
02987 Tobacco Interest (Real Fund)	703,779	0.4%	703,779	0.4%	703,779	0.4%
03005 Emvh V-A Nursing Reimbursement	999,962	0.6%	1,226,569	0.6%	1,247,285	0.6%
03015 Aging - Fire Assistance	45,390	0.0%	45,390	0.0%	45,390	0.0%
03062 Aging - Nasua	42,605	0.0%	42,605	0.0%	42,605	0.0%
03073 Aging - Farmers Market	34,265	0.0%	34,265	0.0%	34,265	0.0%
03112 Vets-V.A. Reimb	1,524,897	0.9%	1,973,743	1.0%	2,013,183	1.0%
03501 64.014 - Vets St. Domic Care 1	127,218	0.1%	133,753	0.1%	136,428	0.1%
03514 10.570 - Elderly Feeding 100%	740,694	0.4%	740,694	0.4%	740,694	0.4%
03515 93.041 - Elder Abuse Prev 100%	19,082	0.0%	19,082	0.0%	19,082	0.0%
03516 93.042 - Ombudsman Activity 10	44,730	0.0%	44,730	0.0%	44,730	0.0%
03517 93.043 - Preventive Hlth 100%	104,003	0.1%	104,003	0.1%	104,003	0.1%
03518 93.044 - Aging Sup S & Train 1	1,630,744	0.9%	1,842,430	1.0%	1,842,577	0.9%
03519 93.045 - Aging Meals 100%	2,600,251	1.5%	2,600,251	1.4%	2,600,251	1.3%
03537 93.779 - Hlth Info Counseling	130,480	0.1%	130,480	0.1%	130,480	0.1%
03579 93.667 - Ssbj - Benefits	299,936	0.2%	297,973	0.2%	298,072	0.2%
03580 93.778 - Med Adm 50%	1,275,716	0.7%	1,315,176	0.7%	1,315,440	0.7%
03583 93.778 - Med Ben Fmap	112,706,687	64.9%	124,584,877	65.2%	129,521,316	65.4%
03666 Aging - Caregiver Iii-E	636,316	0.4%	636,316	0.3%	636,316	0.3%
03799 Older Worker Program	-	-	560,000	0.3%	560,000	0.3%
03976 Hcsb - Tbi Planning - 93.234A	-	-	125,000	0.1%	125,000	0.1%
Grand Total	\$ 173,634,577	100.0%	\$ 190,983,775	100.0%	\$ 197,951,617	100.0%

The SLTCD is funded primarily by federal funds - about 72 percent over the 2005 biennium. General fund declines from 25 percent of base budget funding to 22 percent of the executive request. State special revenue increases from 4 percent of fiscal 2002 costs to 6 percent of the fiscal 2005 budget request

General fund pays the state match for Medicaid eligible costs, the majority of protective services for adult and disabled persons, state supplement payments for persons receiving Social Security supplemental income, and a portion of aging services administrative and service costs.

State special revenue is comprised of several sources. County funds support the non federal share of Medicaid matching funds for the nursing home IGT. Cigarette tax revenue (11.11 percent of the total tax) and Medicaid reimbursement support veterans' services, including the two veterans' homes. Lien and estate revenue collections fund APS workers and offset general fund Medicaid match, and interest from the tobacco tax settlement proceeds constitutional trust fund also provides Medicaid matching funds.

Figure 43 shows the projected fund balance for cigarette tax revenue allocated to veterans' services. Expenditures increase due to the new Special Care Unit at MVH. The projected ending fund balance appears adequate to fund the Executive Budget request, including the Long-Range Building proposal.

Figure 43
Cigarette Tax Proceeds and Fund Balance
Veterans' Services

Fund Balance Deposits/Expenditures	Fiscal 2002	Fiscal 2003*	Fiscal 2004*	Fiscal 2005*
Beginning Fund Balance	\$2,264,621	\$2,164,443	\$1,641,654	\$875,114
Revenue/Transfers In				
Cigarette Tax	1,199,664	1,197,000	1,181,000	1,166,000
Service Reimbursements**	820,142	0	0	0
Expenditures				
Veterans' Homes Operations	915,666	1,264,666	1,715,940	1,681,255
Long-Range Building	1,406,838	455,123	231,600	
Cost Allocated Admin.	61,563	63,410	65,312	67,272
Adjustments	<u>202,520</u>	<u>0</u>	<u>0</u>	<u>0</u>
Ending Fund Balance	<u>\$2,164,443</u>	<u>\$1,641,654</u>	<u>\$875,114</u>	<u>\$359,859</u>

*Revenue based on estimates adopted by the Revenue Oversight Taxation and Transportation Committee. Expenditures based on the Executive Budget request. Interim expenditures also include long-range building proposals funded from the veterans' cigarette allocation in fiscal 2002 and estimated indirect cost allocation within DPHHS.

**Reimbursement from Veterans' Administration for Special Care Unit construction costs.

LFD ISSUE

There are several issues related to funding veterans' services. The issues are mutually exclusive and are:

- Structural imbalance of fund
- Long-Range Building request
- One-time use of ending fund balance
- Proposed executive use

Structural Imbalance

The amount of cigarette tax allocated to support veterans' homes is higher than estimated annual revenues over the 2005 biennium (see Figure 44). The one-time spike in costs and revenues in fiscal 2002 funded construction of the 15-bed Special Care Unit at MVH.

While DPHHS staff anticipate that updated estimates during the legislative session may show that the veterans' homes will receive more federal and private reimbursement, it may not be enough to offset the ongoing imbalance between revenues and costs. The legislature may wish to ask DPHHS how it will propose to correct the imbalance or it may request options for consideration during the 2007 biennium, depending on updated funding estimates.

Potential options that the legislature may wish to review are: cost containment measures; increased private payments; increased cigarette taxes; or potentially a combination of all three.

**LFD
ISSUE
(continued)**

Long Range Building Proposal

The Executive Budget currently funds demolition of an old dormitory at MVH from cigarette taxes. DPHHS staff have concerns that the project should not be funded from cigarette tax revenue. If the proposal is approved, the legislature may wish to review how it is funded. If it is not funded from cigarette taxes, the projected ending fund balance in the account would be about \$0.5 million.

One-Time Use of Ending Balance

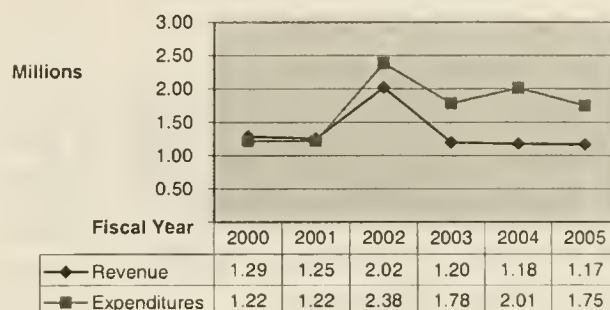
The legislature could consider using some of the cigarette tax fund balance to offset state costs for providing medical services to veterans in nursing homes and for mental health services. Recent federal interpretations made some costs of nursing home care the responsibility of the state Medicaid program and DPHHS has provided mental health services to veterans through the Mental Health Services Plan (MHSP) and state hospital. Using cigarette tax fund balances to offset general fund costs for either of these uses would require an amendment to statute. LFD staff has requested information from DPHHS staff regarding estimates of state general fund costs for providing Medicaid nursing home care and MHSP and state hospital services. Using the one time balance would exacerbate the structural imbalance in the fund.

Proposed Executive Use

The Executive Budget requests HB 2 language to allow OBPP to increase the veterans' homes state special revenue appropriations in the event federal revenues or private payments received are less than the appropriation. If the legislature accepts the executive proposal, it might also wish to cap the amount of the appropriation in order to make it a valid language appropriation (see LFD Issue in Executive Recommended language section). The legislature may also wish to consider alternatives presented by DPHHS as to what type of cost containment measures would be possible in the event that all projected revenues would be insufficient to funds operating costs of the veterans' homes. The legislature may want to take action to allow DPHHS to pursue alternatives if that problem were to arise.

Figure 44

Cigarette Tax Revenue Allocated to Veterans' Homes Compared to Expenditures


**LFD
COMMENT**

Lien and estate revenue is the state share of Medicaid funded services recouped from estates of former Medicaid recipients. Recoupments are primarily for nursing facility services and revenue is deposited to the general fund. Beginning in the 1995 biennium when the lien and estate recovery program was implemented, the legislature appropriated an amount of lien and estate revenue above \$600,000 in annual collections to be used for Medicaid services. In the 1997 and 1999 biennia, the funds were appropriated in language and used for one-time expenditures to improve quality of services for nursing home residents. In the 2001 biennium, the funds were also used for one-time improvements in Medicaid funded community waiver and home based services. Beginning in the 2003 biennium, the legislature approved the executive request to fund operating costs for additional adult protective services workers from lien and estate funds. The 2005 biennium executive request uses lien and estate funds to continue funding for APS workers and for the first time offsets general fund Medicaid match.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					1,328,370					1,349,196
Vacancy Savings					(290,065)					(290,882)
Inflation/Deflation					1,146					4,485
Fixed Costs					12,761					21,471
Total Statewide Present Law Adjustments					\$1,052,212					\$1,084,270
DP 99 - APS Lien and Estate PLA Annualization										
	2.00	0	71,821	0	71,821	2.00	0	71,593	0	71,593
DP 101 - HCBS Waiver Caseload										
	0.00	256,456	0	689,178	945,634	0.00	257,497	0	676,478	933,975
DP 103 - Nursing Hm FY 02-03 IGT Budgeted Adjustments										
	0.00	0	596,140	1,602,015	2,198,155	0.00	0	606,031	1,592,124	2,198,155
DP 105 - Home Based Caseload and FY 02 Base Correction										
	0.00	1,036,180	0	2,784,543	3,820,723	0.00	2,006,465	0	5,271,246	7,277,711
DP 106 - NH Caseload Growth Base Correction & Rate Increase										
	0.00	1,415,381	0	5,977,997	7,393,378	0.00	1,573,016	0	6,306,939	7,879,955
DP 109 - State Supplement FY 02-03 Caseload										
	0.00	51,927	0	0	51,927	0.00	109,914	0	0	109,914
DP 115 - EMVH Program Adjustments										
	0.00	0	57,000	226,607	283,607	0.00	0	57,000	247,323	304,323
DP 116 - EMVH Equipment										
	0.00	0	18,000	0	18,000	0.00	0	18,000	0	18,000
DP 119 - MVH Program Adjustments										
	9.00	0	556,948	0	556,948	9.00	0	562,636	0	562,636
DP 120 - Aging FY03 Wage Increase, Fed Spending Auth										
	0.00	0	0	198,255	198,255	0.00	0	0	198,255	198,255
DP 121 - APS Medicaid Spending Authority										
	0.00	0	0	312,700	312,700	0.00	0	0	312,700	312,700
DP 122 - MVH Equipment										
	0.00	0	26,166	0	26,166	0.00	0	26,006	0	26,006
Total Other Present Law Adjustments										
	11.00	\$2,759,944	\$1,326,075	\$11,791,295	\$15,877,314	11.00	\$3,946,892	\$1,341,266	\$14,605,065	\$19,893,223
Grand Total All Present Law Adjustments					\$16,929,526					\$20,977,493

Executive Present Law Adjustments

Present law adjustments add \$38 million total funds, including \$7 million general fund. The biggest changes fund increases in Medicaid caseloads and utilization and add \$21 million total funds, including \$7 million general fund. Annualization of increases due to the fiscal 2003 nursing home IGT add \$4 million state special revenue and federal funds. Present law adjustments also add funding for 11.0 FTE to operate the Special Care Unit at MVH, which came on line throughout fiscal 2002, and for APS workers added in fiscal 2003.

**LFD
ISSUE**

The LFD staff estimate of present law nursing home caseload cost is slightly lower than that included in the Executive Budget. Days of care, or bed days, have been declining since fiscal 1995 due in large part to expansion of home and community based services, both in Medicaid and the private sector.

Figure 45 shows actual through fiscal 2002 and projected days of care through the end of the 2005 biennium.

The executive estimate increases days of care 0.25 percent from fiscal 2003 to fiscal 2004 and 0.5 percent from fiscal 2004 to fiscal 2005, while the LFD estimate is based on continuing the annual decline of 0.7 percent that was experienced from fiscal 2001 to fiscal 2002.

Figure 46 shows the total daily Medicaid rate for nursing home services. The rate includes a portion of patient payment. The daily rate is held constant from fiscal 2003 through fiscal 2005. The 2005 biennium estimated daily Medicaid rate is \$106.76, which includes a patient contribution of about \$24.

Nursing home caseload estimates, including the estimated payment rate, will be updated during the legislative session. However, if utilization and payment trends do not change significantly, the legislature can assess whether to accept the executive or LFD staff estimates for Medicaid nursing home costs. As in past sessions, the judgment call is whether the utilization reductions will continue. The LFD staff estimates are \$0.85 million general fund (\$3.1 million total funds) lower over the biennium than the executive estimates.

Figure 45

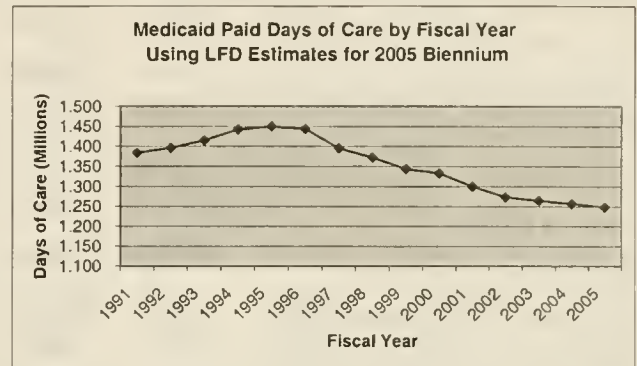
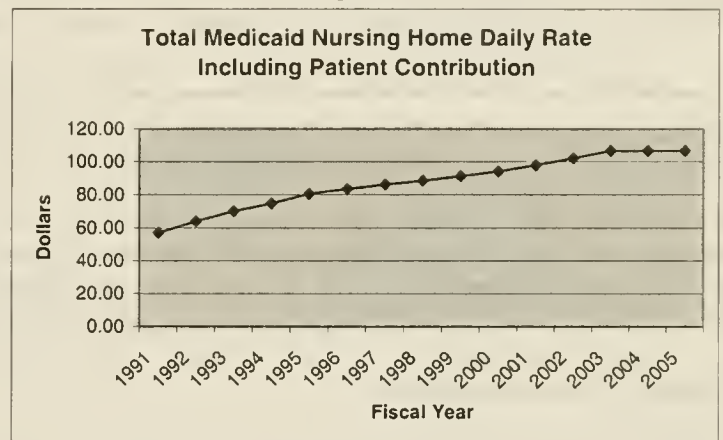


Figure 46



New Proposals											
Fiscal 2004						Fiscal 2005					
Program	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
DP 102 - TBI Grant Spending Authority	22	1.00	0	0	125,000	125,000	1.00	0	0	125,000	125,000
DP 104 - Nursing Hm FY 04-05 IGT Spending Authority	22	0.00	0	1,395,391	3,766,988	5,162,379	0.00	0	2,434,817	6,520,010	8,954,827
DP 113 - Additional Federal Spending Authority	22	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 114 - Aging/HCBS Conference Spending Authority	22	0.00	0	59,053	0	59,053	0.00	0	63,430	0	63,430
DP 117 - MVH Staff	22	1.40	0	54,858	0	54,858	1.40	0	54,896	0	54,896
DP 125 - Older Workers Program Grant	22	0.00	0	0	560,000	560,000	0.00	0	0	560,000	560,000
DP 284 - FTE Reduction	22	(1.50)	(40,545)	0	(17,398)	(57,943)	(1.50)	(40,545)	0	(17,244)	(57,789)
DP 992 - Medicaid Provider Rate Cut	22	0.00	(873,056)	0	(2,346,178)	(3,219,234)	0.00	(926,715)	0	(2,434,605)	(3,361,320)
DP 993 - Cut Home Health Therapy Benefits	22	0.00	(34,000)	0	(91,369)	(125,369)	0.00	(34,000)	0	(89,322)	(123,322)
DP 994 - Reduce Meals on Wheels Program	22	0.00	(257,000)	0	0	(257,000)	0.00	(257,000)	0	0	(257,000)
DP 995 - Eliminate Hospice Program	22	0.00	(174,466)	0	(470,987)	(645,453)	0.00	(193,048)	0	(516,950)	(709,998)
DP 996 - Change Medicaid Eligibility Standards	22	0.00	(593,011)	0	(1,593,608)	(2,186,619)	0.00	(788,275)	0	(2,070,902)	(2,859,177)
DP 998 - Remove APS Abuse Prevention Grants	22	0.00	(50,000)	0	0	(50,000)	0.00	(50,000)	0	0	(50,000)
DP 999 - FY 03 Lien and Estate Expenditures	22	0.00	(162,990)	162,990	0	0	0.00	(162,180)	162,180	0	0
Total	0.90	(\$2,185,068)	\$1,672,292	\$932,448	\$419,672	\$419,672	0.90	(\$2,451,763)	\$2,715,323	\$3,075,987	\$3,339,547

New Proposals

New proposals add \$3.8 million in total funds, with a net reduction of \$2.6 million general fund. The general fund reductions are due to changes in Medicaid eligibility standards, elimination of the Medicaid hospice program, provider rate cuts; reductions to aging services; APS prevention grants; and home therapy services; and using lien and estate revenue to offset general fund. The Medicaid program reductions also reduce federal funds. An increase in the nursing home IGT and requests for additional federal authority add \$16 million.

Language Recommendations

"The Senior and Long Term Care Division is appropriated \$5,794,452 in fiscal year 2004 and \$5,824,989 in fiscal year 2005 for the operation of the Montana Veterans' Home. In the event that federal funds totaling \$2,107,496 in fiscal year 2004 and \$2,149,611 in fiscal year 2005 are not available, the Office of Budget and Program Planning is authorized to increase state special revenue authority to allow expenditure of private reimbursement funds and/or cigarette tax revenue to maintain the funding for the Montana Veterans' Home at this level."

LFD ISSUE

If the legislature approves this concept it may want to consider a change to make the state special revenue language appropriation legal by including an amount. LFD staff has requested that SLTCD inform the legislature of the amount of state special revenue that could be appropriated each year of the biennium. The legislature may also want to review updated cigarette tax fund balance projections to ensure that there is adequate state special revenue available to fund the proposed appropriation.

"State special revenue and federal special revenue associated with the nursing home intergovernmental program may be used to make one-time payments to nursing homes based on the number of Medicaid services provided. The funds for non-county nursing homes may be expended only after the office of budget and program planning has certified that the department has received \$2 million each year from counties participating in the intergovernmental transfer program for nursing homes."

Sub-Program Details

MEDICAID SERVICES 01

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	15.89	0.00	1.00	16.89	0.00	1.00	16.89	16.89
Personal Services	732,638	65,901	38,911	837,450	65,016	38,785	836,439	1,673,889
Operating Expenses	1,066,718	(1,202)	83,089	1,148,605	(988)	86,215	1,151,945	2,300,550
Equipment	2,334	0	3,000	5,334	0	0	2,334	7,668
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	155,872,393	14,357,890	(64,296)	170,165,987	18,289,796	2,851,010	177,013,199	347,179,186
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$157,674,083	\$14,422,589	\$60,704	\$172,157,376	\$18,353,824	\$2,976,010	\$179,003,917	\$351,161,293
General Fund	39,468,939	2,493,455	(1,887,523)	40,074,871	3,622,080	(2,154,218)	40,936,801	81,011,672
State/Other Special	4,401,344	596,140	1,558,381	6,555,865	606,031	2,596,997	7,604,372	14,160,237
Federal Special	113,803,800	11,332,994	389,846	125,526,640	14,125,713	2,533,231	130,462,744	255,989,384
Total Funds	\$157,674,083	\$14,422,589	\$60,704	\$172,157,376	\$18,353,824	\$2,976,010	\$179,003,917	\$351,161,293

Medicaid Services includes reimbursements for Medicaid eligible services provided by state institutions and three types of health services administered through contracts with local providers - nursing home services, home-based entitlement services, and community services limited by a waiver of federal Medicaid regulations. The present law adjustment for each of these services is due to increases in the number of persons eligible for services and utilization changes and annualization of the fiscal 2003 Medicaid county nursing home IGT increase authorized by the 2001 legislature.

New proposals include funds for expansion of the Medicaid community based waiver services and for the nursing home IGT. Expansions are more than offset by reductions in eligibility and services and elimination of the Medicaid hospice service.

Medicaid Services is funded with general fund, state special revenue from the interest on the tobacco settlement trust fund and Medicaid lien and estate recoveries, and federal Medicaid matching funds. The Medicaid program accounts for 89 percent of total SLTCD expenditures in fiscal 2005, declining slightly from the base budget at 91 percent. The Medicaid general fund expenditures declined from 91 percent in the base budget to 90 percent of the 2005 request.

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					99,172					98,252
Vacancy Savings					(33,271)					(33,236)
Inflation/Deflation					502					716
Fixed Costs					(1,704)					(1,704)
Total Statewide Present Law Adjustments					\$64,699	\$64,028				
DP 101 - HCBS Waiver Caseload										
	0.00	256,456	0	689,178	945,634	0.00	257,497	0	676,478	933,975
DP 103 - Nursing Hm FY 02-03 IGT Budgeted Adjustments										
	0.00	0	596,140	1,602,015	2,198,155	0.00	0	606,031	1,592,124	2,198,155
DP 105 - Home Based Caseload and FY 02 Base Correction										
	0.00	1,036,180	0	2,784,543	3,820,723	0.00	2,006,465	0	5,271,246	7,277,711
DP 106 - NH Caseload Growth Base Correction & Rate Increase										
	0.00	1,415,381	0	5,977,997	7,393,378	0.00	1,573,016	0	6,306,939	7,879,955
Total Other Present Law Adjustments										
	0.00	\$2,708,017	\$596,140	\$11,053,733	\$14,357,890	0.00	\$3,836,978	\$606,031	\$13,846,787	\$18,289,796
Grand Total All Present Law Adjustments					\$14,422,589	\$18,353,824				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 101 - HCBS Waiver Caseload - This proposal adds \$513,953 general fund and \$1,365,656 in federal funds over the biennium to increase the Home and Community Based (HCBS) waiver by 30 slots over current level. The waiver provides services that assist people to remain in their own homes, or live in small residential settings. Without the HCBS funded support, many people have no choice but to enter a nursing home. Medicaid funded nursing home care has decreased significantly over the past several years due, in part, to the targeted expansion of HCBS services.

This proposal adds the funding for waiver services to support about 30 people over the fiscal 2003 level. The proposal does not include funding of a 1.5 percent provider rate increase, a 3 percent direct care wage increase appropriated in fiscal 2003, or the remainder of the fiscal 2003 legislatively approved waiver expansion, all of which were delayed as part of the SLTCD 3.5 percent reductions to comply with section 17-7-140, MCA.

DP 103 - Nursing Hm FY 02-03 IGT Budgeted Adjustments - This request is for an additional \$4,396,310 (state special revenue and federal funds) to implement the legislatively approved Medicaid IGT for nursing homes during the 2005 biennium. The 2001 legislature approved an IGT in which counties were able to enter into voluntary agreements to transfer county funds to the SLTCD to be used as Medicaid match to make lump sum payments to "at risk" county affiliated nursing homes, and smaller lump sum payments to non-county nursing homes. The program also provides \$2.0 million per year in additional state special revenue that is appropriated for state mental health services. This proposal funds the IGT increase appropriated by the legislature for fiscal 2003 that is not in the fiscal 2002 base.

DP 105 - Home Based Caseload and FY 02 Base Correction - Caseload growth in Medicaid personal assistance and home health of about 2 percent per year will require an increase of \$3,042,645 general fund and \$8,055,789 in federal funds for the biennium. The Medicaid home based services programs provide supports necessary to assist people to remain in their homes for as long as possible, maintain independence, and avoid unnecessary institutionalization. Caseload growth for Medicaid home based services programs has been increasing between 8 to 10 percent per year. This proposal assumes that caseloads will grow at a rate of no more than 2 percent per year. The SLTCD will take steps to reduce services and contain caseload growth within the projected levels. Should expenditure projections exceed the

appropriation, further reductions in provider reimbursement rates would become necessary. The proposal also adds \$1.482 million to correct an error in the fiscal 2002 accrual that is reflected on MBARS.

DP 106 - NH Caseload Growth Base Correction & Rate Increase - This proposal requests \$2,997,833 general fund and \$12,275,500 in federal funds for the biennium for changes in the federal interpretation regarding the eligibility of veterans for Medicaid funded nursing facility services, anticipated caseload growth, and to correct a problem with the fiscal 2002 accrual that is reflected on the state budgeting system.

The legislature appropriated a 4.5 percent increase in reimbursement for nursing facility providers for fiscal 2003 that is not included in the fiscal 2002 base and assumed a slight decrease in caseload growth for fiscal 2003. Several changes proposed in Medicaid eligibility will have a large impact on the number of persons entering nursing homes by delaying when Medicaid will begin to pay for their care. This proposal assumes that Medicaid will appear to have a large increase in caseload in fiscal 2005 as Medicaid begins to pay for the costs of those delays in fiscal 2004. Some of the increased appropriation was transferred to the HCBS waiver to move people out of nursing homes into community services at a lower cost. Federal funds totaling \$2,174,421 were added to fiscal 2002 to adjust for an error in the accrual for projected nursing home costs in fiscal 2002.

New Proposals										
Sub Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 102 - TBI Grant Spending Authority										
01	1.00	0	0	125,000	125,000	1.00	0	0	125,000	125,000
DP 104 - Nursing Hm FY 04-05 IGT Spending Authority										
01	0.00	0	1,395,391	3,766,988	5,162,379	0.00	0	2,434,817	6,520,010	8,954,827
DP 113 - Additional Federal Spending Authority										
01	0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
DP 992 - Medicaid Provider Rate Cut										
01	0.00	(873,056)	0	(2,346,178)	(3,219,234)	0.00	(926,715)	0	(2,434,605)	(3,361,320)
DP 993 - Cut Home Health Therapy Benefits										
01	0.00	(34,000)	0	(91,369)	(125,369)	0.00	(34,000)	0	(89,322)	(123,322)
DP 995 - Eliminate Hospice Program										
01	0.00	(174,466)	0	(470,987)	(645,453)	0.00	(193,048)	0	(516,950)	(709,998)
DP 996 - Change Medicaid Eligibility Standards										
01	0.00	(593,011)	0	(1,593,608)	(2,186,619)	0.00	(788,275)	0	(2,070,902)	(2,859,177)
DP 998 - Remove APS Abuse Prevention Grants										
01	0.00	(50,000)	0	0	(50,000)	0.00	(50,000)	0	0	(50,000)
DP 999 - FY 03 Lien and Estate Expenditures										
01	0.00	(162,990)	162,990	0	0	0.00	(162,180)	162,180	0	0
Total	1.00	(\$1,887,523)	\$1,558,381	\$389,846	\$60,704	1.00	(\$2,154,218)	\$2,596,997	\$2,533,231	\$2,976,010

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 102 - TBI Grant Spending Authority - This proposal is for \$250,000 federal funds and 1.00 FTE for the biennium for the Traumatic Brain Injury implementation grant during the 2005 biennium. The Traumatic Brain Injury grant program is a federal initiative designed to improve access to health and other services for all individuals with brain injury and their families. The grant program is divided into two phases, providing two-year planning grants followed by separate two-year implementation grants. The SLTCD is in the second year of an assessment and planning grant awarded in April 2001. Federal officials have strongly encouraged Montana to submit an implementation grant request and there is a high probability that the request would be approved. In anticipation of a successful application, this proposal provides the federal spending authority necessary to begin work soon as possible after the grants are awarded in April 2003.

DP 104 - Nursing Hm FY 04-05 IGT Spending Authority - Additional authority of \$3,830,208 state special revenue and \$10,286,998 federal funds is recommended to pursue any possible increase in intergovernmental transfer payments to county and non-county nursing facilities during the 2005 biennium. The potential for an increase in funding generated

through the Medicaid nursing home IGT program depends on several factors, including the nature of any possible actions by the federal government to further restrict the states' ability to use this funding mechanism and the level of future increases or decreases in Medicaid and Medicare nursing home reimbursement rates. Assuming the federal government will not enact further regulations affecting the use of IGTs, the SLTC is authorized to make expanded IGT payments to nursing facilities within the limits of the amount of this appropriation request.

**LFD
ISSUE**

The 2001 legislature authorized reimbursements through the IGT as one time, lump sum payments to nursing homes, clearly indicating that such payments were not part of the ongoing rate structure. The 2001 legislature also appropriated part of the county revenue from IGTs as state matching funds for mental health Medicaid services. The legislature may want to include language about the nursing home IGT in HB 2 similar to the language it included last biennium. The language added last biennium was:

"Funds in item [one-time payments to nursing homes] may be used only to make one-time payments to nursing homes based on the number of Medicaid services provided. State special revenue in item [one-time payments to nursing homes] may be expended only after the Office of Budget and Program Planning has certified that the department has received \$2 million each year from counties participating in the intergovernmental transfer program for nursing homes."

DP 113 - Additional Federal Spending Authority - This proposal adds \$2 federal fund million for the biennium in a language appropriation to allow the SLTCD division to pursue additional federal funding. The past three legislatures have provided the SLTCD with federal spending authority in order to pursue and spend additional federal funding as long as such funding does not require the commitment of additional state funding now or in the future. SLTCD has used this authority in a variety of ways including securing additional federal grant funding and using existing state general fund as Medicaid match to increase HCBS waiver services. This executive recommends continuing the following HB 2 language adopted by the 2001 legislature:

The senior and long term care division is appropriated up to \$2 million in federal special revenue during the 2005 biennium to enhance or improve division services or programs. This additional federal special revenue may be expended by the division on services so long as those actions do not require or commit the state to additional general fund expenditures beyond the amount appropriated for the 2003 biennium by the legislature to the division in [this act]."

**LFD
ISSUE**

The issue of adding "hollow" federal authority is discussed in the agency narrative. The legislature may wish to consider options listed there in connection with this proposal.

Additionally, if the legislature approves this language and/or the appropriation request it may wish to adjust the wording proposed by the executive. The recommendation by the executive would approve an additional \$2 million in federal authority over the biennium. The legislature could consider striking the first sentence of the proposed language and inserting the following sentence instead:

"Item [federal authority] includes \$1 million in federal special revenue each year of the biennium which may be used to enhance or improve division services or programs."

DP 992 - Medicaid Provider Rate Cut - This decision package reduces the payments made to Medicaid providers saving \$1,799,771 general fund and \$4,780,783 in federal funds for the biennium. The rate reduction is 1.87 percent.

**LFD
ISSUE**

The issue of reducing provider rates is discussed in greater detail in the agency overview. The legislature may wish to review issues associated with provider rates in that section.

DP 993 - Cut Home Health Therapy Benefits - This proposal saves \$68,000 general fund and \$180,691 of federal funds over the biennium by removing physical therapy, occupational therapy, and speech therapy services under the Medicaid home health program. While these therapies are an important component of care to individuals in the community, under federal regulations, these services are optional in the home setting because they are available in other outpatient settings.

**LFD
ISSUE**

As noted in the executive's explanation of this reduction there is a potential cost shift to outpatient services. The potential cost shift is not noted and would be paid by the Health Policy and Services Division. The legislature could discuss the likely cost shift with both divisions to arrive at a best estimate of potential cost shift, if it approves this reduction and wishes to appropriate funds to cover the cost shift in Health Policy and Services Division.

DP 994 - Reduce Meals on Wheels Program - This proposal saves \$257,000 general fund in each year of the biennium and reduces the number of meals that can be delivered by the Aging Services program, Meals on Wheels.

The Aging Services program provides funding for a variety of services across Montana. The majority of the funds go to purchase meals for senior citizens, either delivered to their homes or at a meal site such as a senior citizen center. Assuming the budget reductions are made in the meals programs, about 67,000 fewer meals will be served each year. This proposal was not part of the SLTCD 3.5 percent budget reduction plan implemented under section 17-7-140, MCA.

**LFD
ISSUE**

Although this proposal specifies that the reduction will be made in senior meal programs, SLTCD does not plan to specify how providers allocate funding reductions. LFD staff has requested that SLTCD staff provide options in directing how the reductions might be made so that the legislature can evaluate policy choices that it might have if it accepts the executive proposal. When the legislature approved general fund increases for community aging services programs over the last several years, most were appropriated as provider rate increases rather than service expansions.

DP 995 - Eliminate Hospice Program - This request reduces \$367,514 general fund and \$987,937 federal funds for the biennium and eliminates the Medicaid Hospice program, which is a valuable, but optional, service. Federal law allows states the choice of providing, or not providing, each of the Medicaid optional services. In fiscal 2002, a total of 104 people received Medicaid funded hospice services.

**LFD
ISSUE**

One of the challenges in crafting Medicaid service or eligibility reductions is accurately forecasting cost shifts to other Medicaid services or other payers. Elimination of the hospice program could cause a shift to mandated services (nursing home or hospital care) for some persons. Although DPHHS staff note that there could be an additional 2,873 days of nursing home care (about \$240,000 or \$64,400 general fund annually) that cost shift is not factored into this proposal. The legislature could either:

- ask DPHHS for other options to reduce costs another \$64,000 general fund annually
- reduce anticipated cost savings for this proposal by the potential estimated cost shift
- accept or reject the executive proposal without change

DP 996 - Change Medicaid Eligibility Standards - This proposal reduces \$1,381,286 general fund and \$3,664,510 federal funds for the biennium as a result of the Medicaid eligibility changes included in the Executive Budget. The four changes are: eliminate the real property for sale exclusion; change the treatment of income from contracts for deed; excluding the value of life estates when the life estate is being used to produce income; and limiting the exclusion of home property under the intent to return rule. If adopted, each of these changes will restrict the number of people eligible for Medicaid and thereby reduce Medicaid long-term care expenditures. The cost of the services could be shifted to the recipients, their families and/or the service providers.

**LFD
COMMENT**

The proposed Medicaid eligibility change is discussed in greater detail in the agency narrative. The proposed eligibility change impacts persons in nursing homes more than any other Medicaid service group.

DP 998 - Remove APS Abuse Prevention Grants - This request reduces general fund by \$50,000 each year in the Adult Protective Services abuse prevention grants. APS purchases a variety of services from local agencies and individuals to help prevent or alleviate the abuse, neglect, or exploitation of the elderly and disabled.

**LFD
COMMENT**

The Executive inadvertently included this DP in the Medicaid Subprogram. It should be in APS services.

**LFD
ISSUE**

The legislature first appropriated general fund for APS services in 1999. During fiscal 2002, expenditures rose to the full appropriated amount of \$100,000. Almost one-half of the expenditures were made in contract addenda implemented the last week of the fiscal year and funds reserved through accruals. LFD staff questioned whether all of the accruals had been expended and has requested follow up documentation. The legislature can review the additional documentation to evaluate what types of services will be foregone with this proposed reduction.

DP 999 - FY 03 Lien and Estate Expenditures - This proposal uses the portion of the proceeds from Medicaid lien and estate recoveries that traditionally have been used to enhance nursing home and community services to offset general fund expenditures in the nursing home base budget. General fund expenditures are reduced by \$325,170 for the biennium and state special revenue expenditures are increased by an equal amount. This reduction was included in the SLTCD 3.5 percent budget reduction plan.

Sub-Program Details

VETERANS 02

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	113.70	9.00	1.40	124.10	9.00	1.40	124.10	124.10
Personal Services	3,089,264	1,128,513	54,858	4,272,635	1,154,915	54,896	4,299,075	8,571,710
Operating Expenses	2,426,454	452,890	0	2,879,344	481,830	0	2,908,284	5,787,628
Equipment	18,688	44,166	0	62,854	44,006	0	62,694	125,548
Debt Service	7,317	0	0	7,317	0	0	7,317	14,634
Total Costs	\$5,541,723	\$1,625,569	\$54,858	\$7,222,150	\$1,680,751	\$54,896	\$7,277,370	\$14,499,520
General Fund	1,260	(1,260)	0	0	(1,260)	0	0	0
State/Other Special	2,888,386	944,841	54,858	3,888,085	937,192	54,896	3,880,474	7,768,559
Federal Special	2,652,077	681,988	0	3,334,065	744,819	0	3,396,896	6,730,961
Total Funds	\$5,541,723	\$1,625,569	\$54,858	\$7,222,150	\$1,680,751	\$54,896	\$7,277,370	\$14,499,520

Veterans' Services account for about 3 percent of the division base budget expenditures and rises to 4 percent in the 2005 biennium request. The program includes the two veterans' homes. The 2003 biennium appropriation increases are due primarily to present law adjustments for annualization of the cost of a new 15-bed special care unit that became operational during fiscal 2002 and other operating and equipment costs. One new proposal requests funding for 1.40 FTE to meeting increased service needs for the MVH.

The homes are funded with a combination of private payments, state special cigarette tax revenue, and federal funds from the Veterans' Administration. Veterans' services receive 11.11 percent of cigarette tax revenue (Section 16-11-119(1), MCA). In addition to appropriations for operating costs for the veterans' homes in HB 2, building projects funded in the Long-Range Building program are also supported from cigarette taxes allocated to veterans' services.

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				886,340					907,901	
Vacancy Savings				(159,035)					(159,882)	
Inflation/Deflation				3,890					4,917	
Fixed Costs				9,653					16,850	
Total Statewide Present Law Adjustments				\$740,848					\$769,786	
DP 115 - EMVH Program Adjustments	0.00	0	57,000	226,607	0.00	0	57,000	247,323	304,323	
DP 116 - EMVH Equipment	0.00	0	18,000	0	0.00	0	18,000	0	18,000	
DP 119 - MVH Program Adjustments	9.00	0	556,948	0	9.00	0	562,636	0	562,636	
DP 122 - MVH Equipment	0.00	0	26,166	0	0.00	0	26,006	0	26,006	
Total Other Present Law Adjustments	9.00	\$0	\$658,114	\$226,607	9.00	\$0	\$663,642	\$247,323	\$910,965	
Grand Total All Present Law Adjustments				\$1,625,569					\$1,680,751	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 115 - EMVH Program Adjustments - EMVH requests \$587,930 (federal funds and state special revenue) to fund repair and maintenance costs and physician services provided through a sharing arrangement with the Veterans' Administration.

While the operation of EMVH is done through a contract with a private provider, the State of Montana owns the building and grounds and is responsible for repair and maintenance. While maintenance costs have been low during the first seven years of operation, they are now beginning to increase as the physical plant ages. This proposal adds \$15,000 per year in state special revenue from the portion of the cigarette tax earmarked for veterans' nursing homes to address the increasing repair and maintenance needs at EMVH and additional funds to cover the cost of physician services provided under a sharing agreement with the Veterans' Administration. Also included is the additional federal spending authority necessary to pay the contractor the projected increase in the Department of Veterans' Affairs per diem payments to EMVH residents to help offset the cost of their care.

DP 116 - EMVH Equipment - This request adds \$36,000 state special revenue for the biennium for equipment for the Eastern Montana Veterans' Home. The funding is from the portion of the cigarette tax earmarked for state veterans.

DP 119 - MVH Program Adjustments - This request is for \$1,119,584 state special revenue and 9.00 FTE for the biennium to adjust the base budget of the MVH for routine operational cost increases, restoring the base for overtime, holiday, and differential pay, and annualization of the cost and the staffing of the new Special Care Unit. The funding comes from the portion of the state cigarette tax earmarked for veterans.

The SLTCD will update funding for this facility during the session when more information becomes available. The division is requesting flexibility to fund the facility first from all available federal funds, but should they be less than anticipated, that OBPP allow expenditure of state special revenues from private reimbursement and/or cigarette taxes to operate the facility at the level appropriated by the legislature.

DP 122 - MVH Equipment - This request adds \$52,172 state special revenue for the biennium for equipment at MVH with funding from the portion of the state cigarette tax that is earmarked for veterans.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 117 - MVH Staff 02	1.40	0	54,858	0	54,858	1.40	0	54,896	0	54,896
Total	1.40	\$0	\$54,858	\$0	\$54,858	1.40	\$0	\$54,896	\$0	\$54,896

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 117 - MVH Staff - This request is for \$109,754 state special revenue and funding for 1.40 additional FTE at MVH for the biennium. The funding comes from the portion of the state cigarette tax earmarked for veterans.

MVH is providing services to a population with increased needs and complexity of medical problems. With the opening of the 15-bed Special Care Unit (SCU) at MVH to provide services for residents with dementia and Alzheimer's related illnesses and behaviors, has come a need for additional staff. This request would add a 1.00 FTE MDS coordinator position at MVH to ensure that the care planning process at the facility includes accurate assessment of the nursing, medical, dietary and psychosocial needs of each of the residents. An additional 0.40 FTE laundry worker will assist the current staff in keeping up with the increased need for laundry services, is required by the increase in residents occupying the SCU and the more complex needs of the residents in the facility.

Sub-Program Details

AGING 03

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	8.00	0.00	0.00	8.00	0.00	0.00	8.00	8.00
Personal Services	380,586	42,171	0	422,757	41,844	0	422,430	845,187
Operating Expenses	284,305	(20)	59,053	343,338	192	63,430	347,927	691,265
Grants	6,733,625	162,944	303,000	7,199,569	162,944	303,000	7,199,569	14,399,138
Benefits & Claims	824,000	51,927	0	875,927	109,914	0	933,914	1,809,841
Total Costs	\$8,222,516	\$257,022	\$362,053	\$8,841,591	\$314,894	\$366,430	\$8,903,840	\$17,745,431
General Fund	2,227,690	53,641	(257,000)	2,024,331	111,602	(257,000)	2,082,292	4,106,623
State/Other Special	0	0	59,053	59,053	0	63,430	63,430	122,483
Federal Special	5,994,826	203,381	560,000	6,758,207	203,292	560,000	6,758,118	13,516,325
Total Funds	\$8,222,516	\$257,022	\$362,053	\$8,841,591	\$314,894	\$366,430	\$8,903,840	\$17,745,431

Aging Services administers funding from the Older Americans Act, which supports contracts with Area Agencies on Aging to provide meals, transportation, public education, information and assistance, and other services to older Montanans.

The 2005 biennium budget request for Aging Services increases by \$1.4 million total funds, but the general fund declines by about \$300,000 over the biennium compared to base budget expenditures. General fund reductions are due to reducing general fund for community aging services and APS grants. Total funds rise due to increases in federal grants and changing the way federal grant funds are allocated.

Aging Services is primarily funded with federal grant funds from the Older Americans Act and some federal Medicaid administrative matching funds. State special revenue is from Medicaid lien and estate recoveries and funds guardianship services for older adults at risk of abuse and neglect. General fund supports some of the required state match for federal funds and in recent biennia has funded provider rate increases since federal funds have been capped. Aging services comprise 5 percent of the total division budget in fiscal 2005 and 5 percent of the general fund request.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds	
Personal Services				23,004					22,663	
Vacancy Savings				(16,144)					(16,130)	
Inflation/Deflation				(4,400)					(4,188)	
Fixed Costs				4,380					4,380	
Total Statewide Present Law Adjustments				\$6,840					\$6,725	
DP 109 - State Supplement FY 02-03 Caseload										
0.00	51,927		0	0	51,927	0.00	109,914	0	0	109,914
DP 120 - Aging FY03 Wage Increase, Fed Spending Auth										
0.00	0		0	198,255	198,255	0.00	0	0	198,255	198,255
Total Other Present Law Adjustments										
0.00	\$51,927		\$0	\$198,255	\$250,182	0.00	\$109,914	\$0	\$198,255	\$308,169
Grand Total All Present Law Adjustments				\$257,022					\$314,894	

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 109 - State Supplement FY 02-03 Caseload - This request is for \$161,841 general fund for the biennium for the State Supplement caseload increase projected to occur in fiscal 2003 through fiscal 2005. In addition, the proposal funds an expected increase in the processing fee charged by the Social Security Administration.

DPHHS makes a monthly payment to supplement the federal Social Security room and board payment of people with disabilities who live in certain licensed facilities, primarily developmental disabilities group homes. This proposal assumes no caseload increases will occur in fiscal 2003.

During fiscal 2004 and fiscal 2005 the average annual caseload is expected to increase by 45 persons per year. The cost per month per recipient is \$94.00 in group homes and personal care facilities, \$52.75 in adult foster homes, and \$26.00 per month in DD transitional living facilities. In addition, the department must pay the Social Security Administration \$8.50 per person per month to have the supplement added to the client's social security check in fiscal 2002. That amount is projected to increase to \$9.00 in fiscal 2003, \$9.50 in fiscal 2004 and \$10.00 in fiscal 2005.

There is a federal maintenance of effort requirement for the State Supplement program. If caseloads increase beyond the appropriated levels no reduction in State Supplement is possible and further cuts in other SLTCD programs would be necessary.

LFD ISSUE

The present law adjustment for this proposal assumes expansion in DD and mental health group homes. The legislature may want to coordinate this request with action it takes with regard to DD and mental health community services. Alternatively, the legislature could require the division that places clients in an independent living situation to transfer the general fund to SLTCD to fully fund the cost of community placements.

DP 120 - Aging FY03 Wage Increase, Fed Spending Authority - This request is for \$396,510 federal funds for the biennium for the Title III grant for the Family Caregiver and Ombudsman programs.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 114 - Aging/HCBS Conference Spending Authority										
03	0.00	0	59,053	0	59,053	0.00	0	63,430	0	63,430
DP 125 - Older Workers Program Grant										
03	0.00	0	0	560,000	560,000	0.00	0	0	560,000	560,000
DP 994 - Reduce Meals on Wheels Program										
03	0.00	(257,000)	0	0	(257,000)	0.00	(257,000)	0	0	(257,000)
Total	0.00	(\$257,000)	\$59,053	\$560,000	\$362,053	0.00	(\$257,000)	\$63,430	\$560,000	\$366,430

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 114 - Aging/HCBS Conference Spending Authority - This proposal adds \$122,483 state special revenue for the biennium for the Governor's Conference on Aging and the Home and Community Services Conference. This will allow the division to spend the fees, registrations, and donations necessary to put on these two conferences.

DP 125 - Older Workers Program Grant - This request is for \$1,120,000 federal funds for the biennium for the Older American Community Service Employment Program to comply with a change in the funding distribution method. Changes in funding streams at the national level require that federal funds for the Older American Community Service Employment Program, authorized under Title V of the Older Americans Act, as Amended in 2000, be allocated to a designated state agency instead of directly funded to the private program contractors in Montana. The designated state agency in Montana for Older American Act funds is DPHHS, Senior and Long Term Care Division, Aging Services Bureau. This is a federally required change in the distribution process for these funds, not an increase in the amount of money available in the state.

DP 994 - Reduce Meals on Wheels Program - This proposal saves \$257,000 general fund in each year of the biennium and reduces the number of meals that can be delivered by the Aging Services program, Meals on Wheels.

The Aging Services program provides funding for a variety of services across Montana. The majority of the funds go to purchase meals for senior citizens, either delivered to their homes or at a meal site such as a senior citizen center. Assuming the budget reductions are made in the meals programs, about 67,000 fewer meals will be served each year. This proposal was not part of the SLTCD Special Session 3.5 percent budget reduction plan.]

LFD ISSUE Although this proposal specifies that the reduction will be made in senior meal programs, SLTCD does not plan to specify how providers allocate funding reductions. LFD staff has requested that SLTCD staff provide options in directing how the reductions might be made so that the legislature can evaluate policy choices that it might have if it accepts the executive proposal.

When the legislature approved general fund increases for community aging services programs over the last several years, most were appropriated as provider rate increases rather than service expansions.

Sub-Program Details

DIVISION ADMINISTRATION 04

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	6.45	0.00	(0.50)	5.95	0.00	(0.50)	5.95	5.95
Personal Services	280,534	47,093	(21,730)	305,897	47,149	(21,675)	306,008	611,905
Operating Expenses	63,013	8,600	0	71,613	10,123	0	73,136	144,749
Equipment	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$343,547	\$55,693	(\$21,730)	\$377,510	\$57,272	(\$21,675)	\$379,144	\$756,654
General Fund	136,867	22,191	(6,295)	152,763	22,820	(6,295)	153,392	306,155
State/Other Special	55,120	8,920	0	64,040	9,171	0	64,291	128,331
Federal Special	151,560	24,582	(15,435)	160,707	25,281	(15,380)	161,461	322,168
Total Funds	\$343,547	\$55,693	(\$21,730)	\$377,510	\$57,272	(\$21,675)	\$379,144	\$756,654

Division administration oversees administration and management of the Senior and Long-Term Care Division. Division administrative costs are less than 1 percent of the total biennial budget request and is cost allocated among functions it oversees. Other than statewide present law adjustments, the only other recommendation is a funding reduction for 0.5 administrative support FTE.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				60,744					60,802
Vacancy Savings				(13,651)					(13,653)
Inflation/Deflation				640					650
Fixed Costs				7,960					9,473
Total Statewide Present Law Adjustments				\$55,693					\$57,272
Grand Total All Present Law Adjustments				\$55,693					\$57,272

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
Sub Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 284 - FTE Reduction										
04	(0.50)	(6,295)	0	(15,435)	(21,730)	(0.50)	(6,295)	0	(15,380)	(21,675)
Total	(0.50)	(\$6,295)	\$0	(\$15,435)	(\$21,730)	(0.50)	(\$6,295)	\$0	(\$15,380)	(\$21,675)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 284 - FTE Reduction - This proposal reduces 1.50 FTE for a saving of \$81,090 general fund and \$34,642 in federal funds for the biennium. 1.00 APS FTE is filled and the other 0.5 FTE was transferred to the MVH and is being held open. DPHHS will identify another position for reduction.

Sub-Program Details

APS 05

Sub-Program Proposed Budget

Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	38.50	2.00	(1.00)	39.50	2.00	(1.00)	39.50	39.50
Personal Services	1,439,944	262,967	(36,213)	1,666,698	263,190	(36,114)	1,667,020	3,333,718
Operating Expenses	274,488	(7,014)	0	267,474	(5,138)	0	269,350	536,824
Equipment	8,166	0	0	8,166	0	0	8,166	16,332
Grants	0	312,700	0	312,700	312,700	0	312,700	625,400
Benefits & Claims	119,701	0	0	119,701	0	0	119,701	239,402
Debt Service	10,409	0	0	10,409	0	0	10,409	20,818
Total Costs	\$1,852,708	\$568,653	(\$36,213)	\$2,385,148	\$570,752	(\$36,114)	\$2,387,346	\$4,772,494
General Fund	1,341,916	177,864	(34,250)	1,485,530	180,110	(34,250)	1,487,776	2,973,306
State/Other Special	150,079	71,821	0	221,900	71,593	0	221,672	443,572
Federal Special	360,713	318,968	(1,963)	677,718	319,049	(1,864)	677,898	1,355,616
Total Funds	\$1,852,708	\$568,653	(\$36,213)	\$2,385,148	\$570,752	(\$36,114)	\$2,387,346	\$4,772,494

The protective services function includes investigation of allegations of abuse and neglect for adults age 60 or older and disabled individuals age 18 or older. When allegations are substantiated, adult protective services workers assist victims of abuse and neglect to access services.

The 2005 biennium budget request increases \$1.2 million total funds, including \$0.3 million general fund compared to base budget expenditures. The increases are due primarily to the addition of 2.0 adult protective services FTE in fiscal 2003 approved by the 2001 legislature and a request for federal Medicaid authority in case protective services can be eligible for federal match. The Executive Budget also reduces funding for 1.0 administrative support FTE.

The adult protective services function is funded predominately from the general fund. State special revenue includes Medicaid lien and estate recoveries. The protective services function is 1 percent of the total division request, but the general fund request is 3 percent of the total general fund request.

Present Law Adjustments

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services					259,110					259,578
Vacancy Savings					(67,964)					(67,981)
Inflation/Deflation					514					2,390
Fixed Costs					(7,528)					(7,528)
Total Statewide Present Law Adjustments					\$184,132	\$186,459				
DP 99 - APS Lien and Estate PLA Annualization										
	2.00	0	71,821	0	71,821	2.00	0	71,593	0	71,593
DP 121 - APS Medicaid Spending Authority										
	0.00	0	0	312,700	312,700	0.00	0	0	312,700	312,700
Total Other Present Law Adjustments										
	2.00	\$0	\$71,821	\$312,700	\$384,521	2.00	\$0	\$71,593	\$312,700	\$384,293
Grand Total All Present Law Adjustments					\$568,653	\$570,752				

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions

on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 99 - APS Lien and Estate PLA Annualization - This proposal requests 2.00 FTE and \$143,414 in state special revenue funds over the biennium. The state special revenue is from lien and estate recoveries from Medicaid eligible persons who received Medicaid services. Funding for these FTE in fiscal 2003 was approved by the 2001 legislature. The positions were left vacant as part of the general fund spending reductions implemented for section 17-7-140, MCA.

DP 121 - APS Medicaid Spending Authority - This proposal requests \$625,400 federal funds authority for the biennium to pursue Medicaid funding for a portion of the Adult Protective Services program. Medicaid currently provides almost no funding for APS services. In light of the U.S. Supreme Court Olmstead decision that state and federal governments examine and change practices that act as barriers to providing community-based services to appropriate individuals, the SLTCD has asked the Center for Medicaid and Medicare Services (CMS) to reconsider its position that APS is not a Medicaid reimbursable service.

SLTCD has proposed that Medicaid provide reimbursement for APS services as a 50/50 administrative expense for the estimated one-third of the APS caseload that receives one or more of the following Medicaid funded services: HCBS waiver, personal assistance, and home health. Should federal reimbursement become available, SLTCD intends to use the additional funds to contract with private agencies for a variety of APS support services, including: abuse prevention, guardianship, and caseload reduction. The proposal will not require an additional general fund appropriation, now or in the future.

LFD ISSUE

The legislature may wish to examine how SLTCD will ensure that a Medicaid service program remains at a constant expenditure level. The legislature may wish to provide direction either through statute or through expressed legislative intent in the narrative accompanying HB 2 that if approved, this program must be managed within a capped expenditure level.

If the legislature approves this proposal it might also want to consider whether to fully or partially offset current general fund costs of APS administration with additional federal reimbursement. Depending on the legislative decision, language could be added to HB 2 to require such an offset.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 284 - FTE Reduction 05	(1.00)	(34,250)	0	(1,963)	(36,213)	(1.00)	(34,250)	0	(1,864)	(36,114)
Total	(1.00)	(\$34,250)	\$0	(\$1,963)	(\$36,213)	(1.00)	(\$34,250)	\$0	(\$1,864)	(\$36,114)

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 284 - FTE Reduction - This proposal reduces 1.50 FTE for a saving of \$81,090 general fund and \$34,642 in federal funds for the biennium. 1.00 APS FTE is filled and the other 0.5 FTE was transferred to the MVH and is being held open. DPHHS will identify another position for reduction.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	586.41	(47.49)	2.90	541.82	(47.49)	2.90	541.82	541.82
Personal Services	20,778,870	3,227,381	154,626	24,160,877	3,389,001	155,416	24,323,287	48,484,164
Operating Expenses	10,165,225	6,448,392	256,197	16,869,814	6,887,072	230,599	17,282,896	34,152,710
Equipment	23,990	47,751	0	71,741	20,751	0	44,741	116,482
Local Assistance	0	0	0	0	0	0	0	0
Grants	5,427,532	624,037	800,000	6,851,569	624,037	0	6,051,569	12,903,138
Benefits & Claims	90,113,744	6,533,931	4,439,327	101,087,002	16,019,882	5,276,050	111,409,676	212,496,678
Transfers	0	0	0	0	0	0	0	0
Debt Service	44,502	0	0	44,502	0	0	44,502	89,004
Total Costs	\$126,553,863	\$16,881,492	\$5,650,150	\$149,085,505	\$26,940,743	\$5,662,065	\$159,156,671	\$308,242,176
General Fund	50,224,453	884,123	(1,306,997)	49,801,579	4,023,944	(1,354,603)	52,893,794	102,695,373
State/Other Special	5,027,791	1,971,909	1,452,605	8,452,305	2,036,746	1,470,605	8,535,142	16,987,447
Federal Special	71,301,619	14,025,460	5,504,542	90,831,621	20,880,053	5,546,063	97,727,735	188,559,356
Total Funds	\$126,553,863	\$16,881,492	\$5,650,150	\$149,085,505	\$26,940,743	\$5,662,065	\$159,156,671	\$308,242,176

Program Description

The Addictive and Mental Disorders Division (AMDD) is responsible for providing alcohol and drug prevention, treatment and aftercare services, and mental health treatment services. Alcohol and drug services are provided through inpatient and outpatient settings. Direct inpatient services are provided at the 76-bed Montana Chemical Dependency Center (MCDC) in Butte. Other inpatient, outpatient, and prevention services are provided through contracts with community-based programs around the state.

Community-based mental health services are delivered to eligible Medicaid and non-Medicaid individuals through a network of providers around the state. Non-Medicaid services are delivered through the Mental Health Services Plan (MHSP) and provide services to individuals earning up to 150 percent of the federal poverty level. Montana State Hospital (MSH) at Warm Springs (licensed capacity of 189 beds) and the Montana Mental Health Nursing Care Center (MMHNCC) at Lewistown (licensed capacity of 165 beds) provide institutional services to individuals with mental illness. The services at MSH are typically of a short duration while services for residents at the MMHNCC are considered to be long term.

Program Narrative

Addictive and Mental Disorders Division Major Budget Highlights	
○	Reduction in state funded Mental Health Services Plan (MHSP) for adults from about 3,000 slots to 350 • Proposed Medicaid waiver may provide some services for most seriously ill who lose MHSP services
○	Capping Montana State Hospital capacity at 135 (reduction of 54 beds) • Potentially charging counties for hospital use above historic level
○	Developing 3 new 15-bed Behavioral Inpatient Health Facilities (BHIF) • Potentially require involuntary commitment first to BHIF • Require counties to take emergency detentions to BHIFs
○	Capping Mental Health Nursing Care Center capacity at 75 (reduction

of 35 beds from current 105 population) and contracting for community services for those residents

- Funding reductions for 44.59 FTE, primarily from downsizing institutions
- Reduction in Medicaid provider rates
- Expansion of mental health Medicaid intergovernmental transfer (IGT)
- Shifting \$2 million in state special alcohol tax revenue formerly distributed to county chemical dependency programs to match mental health Medicaid benefits
 - Backfill loss to county programs with increased Medicaid payments funded from \$0.4 million general fund and federal matching funds

Major LFD Issues

- Significant policy issues related to executive proposal to cap the state hospital population and develop BHIFs
 - Feasibility of BHIFs difficult to determine
 - Reduction in state funding for community services for non Medicaid population and recent reductions in community hospital and crisis services will put increased pressure on MSH and BHIF services, capping population may not be feasible
 - Potential cost shift to local governments
 - Potential reduction of Medicare general fund revenue depending on licensure/certification criteria for BHIF
- Shift in general fund to more institutional/hospitalization support than to community services
 - Marked increase in the annual per person cost of institutional care
 - Greater overall general fund cost despite shift to community services and closure of two wings of the nursing care center
- Diversion of alcohol tax funds and backfill with increased Medicaid payments
 - Loss of flexible funding source for county chemical dependency programs
 - Allocation among programs may be different than historic allocation of alcohol tax
 - Subject to reductions to avoid supplemental or due to implementation of 17-7-140, MCA general fund spending reductions by Governor
- Potential loss of county revenue to community mental health centers in proposed IGT
- Amount of alcohol tax requested in Executive Budget above the level of annual revenues

Biennial Comparison

The AMDD budget increases \$44 million total funds, including \$0.7 million general fund from the 2003 biennium to the 2005 biennium budget request (see Figure 47). The executive removes funding for 44.59 FTE during the 2005 biennium, largely due to downsizing MSH and MMHNCC.

As illustrated in Figure 47, 2005 biennium funding for the division increases 6 percent when compared to the 2003 biennium. General fund support for the division remains essentially the same. The majority of the division's funding, 73 percent, supports personal services, while the division's remaining funding supports operating costs.

The most significant components of the AMDD budget are Medicaid and institution services, which together account for about 83 percent of the general fund request. About 94 percent of the funded FTE are in the chemical dependency and two mental health institutions and over 50 percent of the 2005 biennium general fund budget supports the institutions. Medicaid services account for about a third of the total division budget request and comprise \$33 million or about a third of the general fund budget request.

As in other divisions with significant Medicaid program components, the 2005 biennium general fund increase is significantly lower than comparable requests in recent biennia. For instance, last biennium, the executive request for this division increased \$75 million total funds, including \$22 million general fund, between the 2001 and 2003 biennia.

However, that increase did not take into account an \$11.2 million general fund supplemental request for mental health services in fiscal 2003.

Benefits increase the most, accounting for 57 percent of the change. Operating costs increase by nearly 30 percent due to including the budget for BHIF hospital services in operating costs. Personal services increase by 9 percent despite the reduction in funding for 44.59 FTE. The increase in personal services is due to the large number of positions held vacant in AMDD and annualization of the fiscal 2003 pay plan increases.

Federal funds support almost 90 percent of the increase in the 2005 biennium AMDD budget request. Federal funds increase significantly due to refinancing school based mental health services, and expansion of Medicaid services in the mental health area that were previously funded by general fund in the state mental health institutions. Services provided by an institution for mental disease for Medicaid eligible persons between the ages of 21 and 64 are not Medicaid eligible, while community mental health services for the same persons are Medicaid reimbursable. The executive proposes to create Medicaid eligible community services for residents of state institutions to serve those persons in the community and to leverage federal Medicaid match.

Other significant components of the Executive Budget include:

- Reducing and restructuring MHSP - a net \$16.2 million general fund reduction
- Reducing the average daily population of the state hospital and MMHNCC, funding community services, and adding present law adjustments - a net increase of \$16.2 total funds, including \$6.1 million general fund
- Lowering mental health Medicaid reimbursements - \$3.3 million total funds, \$0.9 million general fund
- Increasing Medicaid caseload and service utilization, including offsets due to eligibility, service and provider rate reductions - \$39.9 million, \$5.4 million general fund
- Shifting up to \$4.4 million of general fund mental health Medicaid matching costs to state special revenue

Figure 47
2003 Biennium Compared to 2005 Biennium
Addictive and Mental Disorders Division

Budget Item/Fund	2003 Biennium	2005 Biennium	Change	Percent of Total
FTE	586.41	541.82	(44.59)	
Personal Services	\$ 44,305,690	\$ 48,484,164	\$ 4,178,474	9.4%
Operating	20,695,242	34,152,710	13,457,468	30.3%
Equipment	205,407	116,482	(88,925)	-0.2%
Grants	11,407,501	12,903,138	1,495,637	3.4%
Benefits/Claims	187,061,589	212,496,678	25,435,089	57.2%
Debt Service	127,166	89,004	(38,162)	-0.1%
Total Costs	<u>\$263,802,595</u>	<u>\$308,242,176</u>	<u>\$ 44,439,581</u>	100.0%
General Fund	\$101,910,987	\$102,695,373	\$ 784,386	1.8%
State Special	12,973,688	16,987,447	4,013,759	9.0%
Federal Funds	<u>148,917,920</u>	<u>188,559,356</u>	<u>39,641,436</u>	89.2%
Total Funds*	<u>\$263,802,595</u>	<u>\$308,242,176</u>	<u>\$ 44,439,581</u>	100.0%
Percent Increase			16.8%	

**LFD
ISSUE**

There are several policy issues embodied in DPHHS administration of mental health services during the 2003 biennium and in the 2005 biennium Executive Budget proposal for mental health services. These are: 1) a shift in general fund resources from community services to state institutions; 2) higher proportional reductions in children's mental health services compared to adult mental health services; and 3) a potential increase in general fund revenues due to anticipated changes for MMHNCC.

Shift in General Fund Resources to State Institution Care

Total funding for community mental health services has increased over the years, largely due to growth in Medicaid spending. In addition to Medicaid, however, Montana offered the MHSP program that invested general fund in services for low-income seriously mentally ill adults with incomes below 150 percent of the federal poverty level but not eligible for Medicaid. However, Montana through MHSP also invested general fund in services for low-income seriously mentally ill adults with incomes below 150 percent of the federal poverty level but above Medicaid financial eligibility standards. The MHSP program had its origins in the statewide mental health managed care contract (1997-1999), and expanded services previously provided through contracts with community mental health centers, administered by the Department of Institutions, prior to executive branch reorganization that created and moved such programs to DPHHS.

The managed care contract created an entitlement program for adults with a serious and disabling mental illness and seriously emotionally disturbed (SED) children in families with incomes under 200 percent of the federal poverty level. DPHHS allowed the contractor to reduce financial eligibility to 150 percent of the federal poverty level due to cost overruns. DPHHS continued the program when the managed care contract was terminated April 1999. During the 2001 biennium, DPHHS capped MHSP enrollment and refinanced MHSP services for children through CHIP to mitigate ongoing cost-over runs in all mental health service components, but primarily in Medicaid funded services. The 2001 legislature authorized a \$44 million supplemental appropriation (\$11.4 million general fund) in the 2003 biennium for mental health services, despite cut backs and cost containment measures implemented by the executive.

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Over the last two biennia DPHHS has responded to increased Medicaid, MHSP and state hospital costs by reducing mental health services, including elimination of some services. Some of the most noticeable changes that have been made since the 2001 session include:

- Elimination of children's MHSP services provided above the level of regular CHIP benefits
- Elimination of outpatient therapy for adults without a serious mental illness and children who are not SED
- Discontinuation of Medicaid reimbursement for out-of-state inpatient psychiatric care for children if those services can be provided in Montana, and limited slots for payment of the room and board portion of therapeutic group care and family foster care
- Further reductions in MHSP through sole source contracting with mental health centers, capping prescription drug coverage at \$250 monthly per enrollee, and reducing enrollment (effective December 1, 2002)
- Changing children's case management services and awarding sole source contracts to two providers in each mental health region (effective January 1, 2003)
- Withholding of fiscal 2002 provider rate increases
- Use of \$2.1 million of the \$2.4 million general fund appropriation for development and implementation of community services for cost over runs at the state hospital

Additional Medicaid service and provider rate reductions to be implemented January 1, 2003, including:

- Elimination of intensive level of therapeutic family care
- Reduction in therapeutic group home rates accompanied by some staff ratio requirements for the homes
- Reduction of 10 percent in the payment rate for community-based psychiatric rehabilitation and support
- Elimination of a monthly reimbursement for case management services and institution of a 15 minute unit rate
- Limitation of individual outpatient therapy for adults by psychologists, social workers, and professional counselors to 16 sessions per year

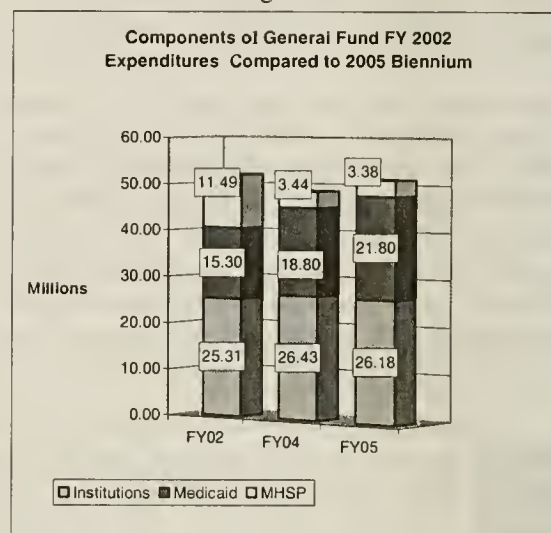
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- Elimination of 75-80 minute therapy sessions provided by psychologists, social workers, and professional counselors
- Reduction of 5 percent in payment rates for: all psychologist, social worker and professional counselor services, day treatment (adult and youth), adult foster care, adult group home, crisis facility, residential treatment facility, permanency therapeutic family care, moderate level therapeutic family care, and partial hospitalization

These changes have reduced the availability of, and in some instances the duration of community mental health services and the number of persons eligible for services. And, although state hospital cost containment measures were vigorously pursued, more general fund was transferred into and used by the state hospital than included in the 2003 biennium Executive Budget request. The 2001 legislature initiated and added a one-time appropriation of \$2.4 million general fund to develop and implement community services or use in the state hospital as necessary, of which \$2.1 million was expended for MSH during the base budget year.

The policy reflected in general fund expenditure patterns in the Executive Budget continues these trends and is contrary to best practices and legal requirements in providing services to disabled persons. Both tenets emphasize provision of community services in preference to institutional services. The executive proposal anticipates serving 205 adults in the state mental health institutions during the 2005 biennium, which is a reduction of 35 at MMHNCC and a minimum reduction of 31 at the state hospital. However, the general fund cost of continuing state institution services does not decline significantly due to such population reductions, resulting in a rising proportion of general fund allocated to institutional care rather than community services. Additionally, reductions to community services, both during the 2003 biennium and in the proposed budget, may result in the need for additional hospital services, which could further exacerbate the funding shift if resources are transferred to institutional budgets from community services.

Figure 48



The general fund executive budget request for mental health services does not change significantly from base year expenditures. However, the allocation of general fund between hospital and community services does change. Institutions accounted for 50 percent of base budget general fund expenditures (including \$2.1 million of a one-time appropriation), rising to 53 percent in fiscal 2004 and declining to 50 percent in fiscal 2005. Additionally, substantially fewer persons will be served in state institutions, raising the average general fund cost per day from \$292 in fiscal 2002 to \$412 per day in fiscal 2005 for MSH services (an increase of 39 percent) and from \$159 per day in fiscal 2002 to \$213 per day in fiscal 2005 for MMHNCC (an increase of 33 percent).

One striking comparison of the number and cost of persons served and the general fund cost over the biennium as proposed in the Executive Budget is:

- \$26.18 million general fund to serve 205 adults in state mental health institutions
- \$3.38 million general fund to serve 350 adults and 235 children in the community, with children's costs accounting for \$0.7 million of the \$3.38 million total

The 2005 biennium funding shift augments the reductions in community services made by the executive during the 2003 biennium to avoid a supplemental appropriation and to implement Section 17-7-140, MCA. It is significant because if general fund were available to support community services, it would help prevent the need for more intensive state institution services and if used to leverage federal Medicaid funding, it would generate a \$3 federal cost share for every \$1 of general fund spent.

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As noted in the previous issue, DPHHS has implemented numerous changes over the 2003 biennium to contain general fund cost increases in mental health services. While all mental health service components (state institutions, MHSP and Medicaid) have experienced cost increases and been subjected to service limitations and cutbacks, the most dramatic changes have occurred in children's mental health services. For instance, here are some comparative examples:

- Elimination of expanded mental health services for SED children who are also eligible for CHIP, while the comparable adult program experienced some service reductions
- Elimination of intensive therapeutic family care and collapsing levels of therapeutic group care for children into a single service, with no change for group home or foster care services for adults
- Elimination of partial hospitalization services for children while reducing, but maintaining, the adult day services

DPHHS staff note that the cost of children's Medicaid mental health services has increased at annual rates of 13 percent compared to cost increases of 9 percent for adult Medicaid services. While that cost comparison is important, it does not paint a complete picture. Adult mental health services include two significant components (MSH and MHSP) for which there are either no comparable children's services or comparable services and eligibility are more limited. So, using Medicaid service differences between adults and children for allocating reductions leaves out important components of the adult system that provide a more complete service continuum.

Additionally, DPHHS has maintained MHSP for adults who are seriously mentally ill but ineligible for Medicaid that has a greater level of funding and mental health service array than available to children. While SED children can receive services through the regular CHIP program, services such as inpatient psychiatric care are subject to limits and some services, such as foster care and group home care, are not available. The comparable adult program includes a greater array of intensive level services than that available to children and does not have inpatient service limits (as long as the services are medically necessary).

Montana does not operate a children's mental health facility similar to the state hospital or MMHNCC. While the state funds the most intensive mental health services for adults meeting statutory commitment standards, it does not have a comparable service for children.

It is important to note that DPHHS is currently involved in a lawsuit that alleges the lack of a children's commitment process and payment for services similar to the involuntary commitment process and payment for adult mental services is unconstitutional based on equal protection considerations. The legislature may wish to ask DPHHS what steps it might take if it were to lose the lawsuit.

Potential General Fund Revenue Increase for MMHNCC

One potential positive feature of the total general fund impact of the executive proposal relates to MMHNCC downsizing. If the MMHNCC population remains at the projected occupancy level it could produce additional general fund reimbursement. Federal Medicaid reimbursement for MMHNCC services is used to match Medicaid services for children's inpatient residential psychiatric care and to pay MSH construction bond debt with the remainder deposited to the general fund. Because the MMHNCC daily rate is higher in the 2005 biennium, DPHHS would collect additional Medicaid if the remaining population or a high proportion of them were Medicaid eligible. LFD and DPHHS staff will work together to refine such estimates for legislative consideration.

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium as recommended by the Governor.

Program Funding Table Addictive & Mental Disorders						
<u>Program Funding</u>	<u>Base Fiscal 2002</u>	<u>% of Base Fiscal 2002</u>	<u>Budget Fiscal 2004</u>	<u>% of Budget Fiscal 2004</u>	<u>Budget Fiscal 2005</u>	<u>% of Budget Fiscal 2005</u>
01100 General Fund	\$ 50,224,453	39.7%	\$ 49,801,579	33.4%	\$ 52,893,794	33.2%
02034 Earmarked Alcohol Funds	2,745,379	2.2%	4,621,421	3.1%	4,686,559	2.9%
02053 Medicaid Nursing Home Match	2,106,155	1.7%	3,200,000	2.1%	3,200,000	2.0%
02384 02 Indirect Activity Prog 33	26,048	0.0%	29,844	0.0%	29,887	0.0%
02691 6901-Msh/Doc Maint Agreement	-	-	339,304	0.2%	356,960	0.2%
02987 Tobacco Interest (Real Fund)	150,209	0.1%	261,736	0.2%	261,736	0.2%
03197 Msh Mh Medicaid Reimb	3,180,119	2.5%	3,180,119	2.1%	3,180,119	2.0%
03366 Csat Demand & Needs Assessment	32,025	0.0%	-	-	-	-
03426 Child Health Insurance	706,848	0.6%	-	-	-	-
03500 Adad - Needs Asm Study	-	-	946,415	0.6%	103,585	0.1%
03505 93.150 - Mntal Hlth - Homeless	287,256	0.2%	300,000	0.2%	300,000	0.2%
03507 93.958 - Mntal Hlth - Blk Grt	1,250,525	1.0%	1,300,525	0.9%	1,300,525	0.8%
03508 93.959 - Adad - Blk Grt 100%	5,918,710	4.7%	6,610,892	4.4%	6,831,818	4.3%
03580 93.778 - Med Adm 50%	1,732,962	1.4%	2,027,399	1.4%	2,272,449	1.4%
03583 93.778 - Med Ben Fmap	57,907,188	45.8%	76,146,983	51.1%	83,419,455	52.4%
03601 03 Indirect Activity Prog 33	285,986	0.2%	319,288	0.2%	319,784	0.2%
Grand Total	<u>\$ 126,553,863</u>	<u>100.0%</u>	<u>\$ 149,085,505</u>	<u>100.0%</u>	<u>\$ 159,156,671</u>	<u>100.0%</u>

AMDD is funded from general fund, state special revenue and federal funds. General fund accounts for a third of the 2005 biennium budget, compared to 40 percent of base budget expenditures. Federal funds rise from 56 percent of base budget funding to 61 percent of the 2005 biennium request. State special revenue rises from 4 to 5 percent over the same period.

General fund supports most of the cost of MHSP, the state match for mental health Medicaid benefits, and a portion of costs for both state institutions of mental disease and administration. Federal funds support a share of Medicaid costs, and federal block grants for mental health, homeless, and chemical dependency. The base budget includes federal CHIP grant funds that supported a share of the costs for expanded mental health services for children in MHSP. That part of the MHSP program was discontinued as a general fund spending reduction in order to avoid a supplemental appropriation. State special revenue is primarily alcohol taxes allocated to DPHHS, county funds provided to community mental health centers, revenue from the Medicaid nursing home intergovernmental transfer program, payments from the Department of Corrections for a new maintenance agreement for the Xanthapoulos building and interest income from the constitutional tobacco settlement trust.

Alcohol Tax Funds Allocated to DPHHS

DPHHS is allocated a portion of the liquor license, beer and wine tax. Figure 49 shows the fiscal 2002 actual revenues and expenditures for alcohol tax funds allocated to DPHHS and projections of fiscal 2003 through fiscal 2005. Statutes specify how funds can be used and that the balances remaining in the account after legislative appropriations have been made are statutorily appropriated for distribution counties for use by approved private or public chemical dependency programs (Sections 53-24-206 (3)(b) and 17-7-502, MCA).

Figure 49
Earmarked Alcohol Tax Revenue and Expenditures
Fiscal 2002 Actuals Through Fiscal 2005 Budget Request

Revenue/Expenditures	Actual	Estimated	Executive Budget		Percent
Fund Balance	Fiscal 2002	Fiscal 2003	Fiscal 2004*	Fiscal 2005*	of Total
Beginning Balance	\$369	\$34,277	\$0	(\$64,796)	
Revenues					
Liquor License	\$3,248,958	\$3,365,000	\$3,496,000	\$3,628,000	69.0%
Beer Tax	854,530	896,000	939,000	984,000	18.7%
Wine Tax	562,559	578,000	586,000	595,000	11.3%
Cost Recovery for MCDC	37,985	50,000	50,000	50,000	1.0%
Total Revenue	\$4,704,032	\$4,889,000	\$5,071,000	\$5,257,000	100.0%
Annual Percent Change		3.9%	3.7%	3.7%	
Total Funds Available	\$4,704,401	\$4,923,277	\$5,071,000	\$5,192,204	
Disbursements					
Chemical Dependency Cntr	\$1,966,013	\$2,024,993	\$2,476,355	\$2,321,567	44.6%
CD Medicaid Services/Admin.	242,788	242,788	649,525	869,454	16.7%
Distribution to Counties	1,348,803	730,000	0	0	0.0%
Mental Health Medicaid	0	830,892	1,000,000	1,000,000	19.2%
Justice - Equipment	303,204	303,205	303,204	303,204	5.8%
Mental Health Services Plan	233,506	233,506	0	0	0.0%
Behavioral Health Facilities	0	0	233,506	233,506	4.5%
CD Operations	228,612	290,515	191,720	191,681	3.7%
Cost Allocated Admin.	76,381	78,672	78,672	78,672	1.5%
Montana State Hospital	75,000	75,000	75,000	75,000	1.4%
Quality Assmce. - Licensure	57,834	60,485	58,204	58,204	1.1%
Pine Hills	25,523	25,523	25,523	25,523	0.5%
Labor - POL Board	24,592	27,697	44,087	44,087	0.8%
Total Disbursements	\$4,582,256	\$4,923,277	\$5,135,796	\$5,200,898	100.0%
Adjustments	(\$87,868)	\$0	\$0	\$0	
Ending Fund Balance	\$34,277	\$0	(\$64,796)	(\$8,695)	
*Estimated revenues are based on Revenue and Taxation Committee action and fiscal 2003 costs are based on the legislative appropriation. 2005 biennium costs reflect the executive request.					

The August 2002 special session of the legislature adopted temporary amendments to section 53-24-108, MCA in order to implement the executive proposal to allocate \$1 million of alcohol tax as Medicaid match for mental health benefits, replacing a like amount of general fund. The first amendment allowed the use of alcohol taxes as matching funds for Medicaid benefits, including illnesses related to chemical dependency. In the second temporary amendment, the legislature wanted to ensure that counties and local programs continued to receive a portion of alcohol tax proceeds that had been statutorily appropriated. Historically counties had received at least \$1 million from the statutory appropriation in addition to amounts paid as part of contracts with AMDD. The temporary amendment effective until June 30, 2003 states:

53-24-108(2)(b) The department shall distribute at least \$1 million to state-approved chemical dependency programs during fiscal year 2003. During fiscal year 2003, the department may use other sources of funding to meet its obligations under this subsection (2)(b). At least \$730,000 of funds distributed under this subsection (2)(b) must be derived from revenue generated by 16-1-404, 16-1-406, and 16-1-411 and must be distributed to counties, as provided in 53-24-206(3)(b), for the private or public programs approved pursuant to 53-24-208. The remaining balance may consist of a combination of funds generated by taxation on alcoholic beverages and other funds available to the department.

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In Figure 48, the alcohol tax distribution to counties in fiscal 2003 shows \$730,000 as required by statute. However, after that distribution and taking into account the other projected fiscal 2003 expenditures, it will leave about \$170,000 less than anticipated during the August 2002 special session as match for Medicaid mental health benefits. LFD staff has been unable to obtain budget status information from DPHHS to review fiscal 2003 projections, so it is not possible to determine whether this shortfall has been taken into account.

Legislative staff has requested information from AMDD regarding whether this shortfall is included in current budget projections, and if not, how the shortfall will be funded. Options that the legislature can consider, in addition to, or instead of, information that will be supplied by AMDD include:

- Amend the temporary Section of 53-24-108(2)(b) to reduce the minimum transfer of alcohol tax proceeds to counties to \$460,000 to provide the full match for mental health Medicaid benefits
- Request that DPHHS suggest service reductions that could be considered in lieu of reducing the county transfer
- Appropriate general fund, or other funds (potentially federal chemical dependency block grant) to augment the transfer to county programs in fiscal 2003

Statute describes how funds are to be used. Section 53-24-108(1), MCA, effective July 1, 2003, states: Revenue generated by 16-6-104, 16-6-406, and 16-1-411 and allocated to the department to be used in state-approved private or public programs whose function is the treatment, rehabilitation, and prevention of alcoholism, which for the purposes of this section includes chemical dependency, may be distributed in any of the following ways:

- (a) as payment of fees for alcoholism services provided by state-approved private or public alcoholism programs and licensed hospitals for detoxification services;
- (b) as grants to state-approved private or public alcoholism programs; or
- (c) as matching funds for the Montana Medicaid program administered by the department that are used for alcoholism and chemical dependency programs.

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There are two major issues related to the projected alcohol tax fund balance: 1) funds requested above the level of annual revenue in the 2005 biennium; and 2) uses of the tax proceeds not authorized by statute.

Expenditures in Excess of Revenue

The Executive Budget appropriates more funds than will be available in the alcohol tax state special revenue account during both years of the 2005 biennium. The legislature can consider several options:

- Request suggested adjustments from the executive to bring expenditures and revenues in line
- Allocate additional federal block grant funds to offset alcohol state special revenue expenditures in either MCDC or program administration
- Reduce the executive request for some appropriations out of alcohol tax proceeds
- Take no action

Statutory Uses of Alcohol Tax

Some of the uses of alcohol tax funds requested in the Executive Budget do not appear to be authorized by the statute. Those include: matching funds for mental health Medicaid services; equipment for the Department of Justice; licensure or certification activities performed by the Department of Labor and Quality Assurance Division; or potentially services provided by the state hospital and MHSP.

The legislature has several options:

- Enact statutory changes to authorize use of alcohol tax funds allocated to DPHHS for uses specified in the Executive Budget
- Deny funding for uses not allowed by statute
- Appropriate general fund or another source of funds for uses not specified
- Appropriate alcohol tax funds as requested by the executive

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				4,559,635					4,693,130
Vacancy Savings				(1,013,536)					(1,018,875)
Inflation/Deflation				21,370					29,047
Fixed Costs				355,249					371,445
Total Statewide Present Law Adjustments				\$3,922,718					\$4,074,747
DP 135 - Mental Health Intergovernmental Transfer Caseload									
0.00	0	436,612	1,172,368	1,608,980	0.00	0	445,612	1,163,368	1,608,980
DP 140 - Block Grant Increase									
0.00	4,248	0	619,789	624,037	0.00	4,248	0	619,789	624,037
DP 141 - MH UR Contract /Retrospective Reviews									
0.00	(287,810)	0	209,334	(78,476)	0.00	(206,368)	0	453,660	247,292
DP 143 - Medicaid Program Changes									
0.00	3,350,771	518,480	7,823,225	11,692,476	0.00	5,994,587	738,409	14,507,231	21,240,227
DP 144 - Mental Health Block Grant Increase									
0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 145 - MCDC Base Adjustment									
0.00	0	93,460	49,908	143,368	0.00	0	(70,923)	269,837	198,914
DP 147 - MMHNCC Base Adjustments and Restructuring									
(21.56)	(31,651)	0	1,629,324	1,597,673	(21.56)	64,002	0	1,619,263	1,683,265
DP 335 - Reduce CIP FTE									
(3.00)	0	(103,480)	0	(103,480)	(3.00)	0	(103,224)	0	(103,224)
DP 344 - Restructure/Reduce Mental Health Services Plan									
0.00	(8,054,160)	(233,506)	(708,161)	(8,995,827)	0.00	(8,116,907)	(233,506)	(708,161)	(9,058,574)
DP 351 - IGT Refinancing - Medicaid Caseload									
0.00	(657,600)	657,600	0	0	0.00	(648,600)	648,600	0	0
DP 352 - Mental Health Community Services FMAP Change									
0.00	72,480	0	(72,480)	0	0.00	214,582	0	(214,582)	0
DP 354 - Medicaid Eligibility Changes									
0.00	(15,546)	0	(41,777)	(57,323)	0.00	(15,546)	0	(40,830)	(56,376)
DP 8146 - MSH Base Adjustments and Restructuring (Requires Legislation)									
(22.93)	2,987,324	233,506	3,256,516	6,477,346	(22.93)	3,077,012	233,506	3,120,937	6,431,455
Total Other Present Law Adjustments									
(47.49)	(\$2,631,944)	\$1,602,672	\$13,988,046	\$12,958,774	(47.49)	\$367,010	\$1,658,474	\$20,840,512	\$22,865,996
Grand Total All Present Law Adjustments				\$16,881,492					\$26,940,743

Executive Present Law Adjustments

Present law adjustments add \$44 million total funds, and include a net reduction of \$2 million general fund and a reduction in funding for 47.49 FTE. The general fund reductions are due to a \$16 million decrease due to restructuring the MHSP program and \$2 million in vacancy savings. The largest offsets to that reduction are \$5.4 million for Medicaid caseload growth and utilization increases, and \$6 million to cap MSH and develop BHIFs. Reductions in funding for FTE are due primarily to downsizing both MSH and MMHNCC. Fully funding personal services and annualizing the fiscal 2003 pay plan increase adds \$9 million in total funds, which is partially offset by \$2 million in vacancy savings.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
DP 131 - Continue Data Infrastructure & Integration Grant										
33	1.00	0	0	146,415	146,415	1.00	0	0	103,585	103,585
DP 132 - Continue Community Incentive Grant										
33	0.00	0	0	800,000	800,000	0.00	0	0	0	0
DP 133 - MCDC Staffing Changes										
33	2.90	0	113,301	0	113,301	2.90	0	113,645	0	113,645
DP 154 - MSH DoC Agreements										
33	4.00	0	339,304	0	339,304	4.00	0	356,960	0	356,960
DP 287 - FTE Reduction										
33	(5.00)	(154,942)	0	(33,255)	(188,197)	(5.00)	(155,010)	0	(33,165)	(188,175)
DP 339 - Federal Medicaid for School-based Mental Health										
33	0.00	0	0	5,000,000	5,000,000	0.00	0	0	6,000,000	6,000,000
DP 350 - Alcohol Tax - General Fund Replacement										
33	0.00	(1,000,000)	1,000,000	0	0	0.00	(1,000,000)	1,000,000	0	0
DP 353 - Medicaid Provider Reimbursement Reduction										
33	0.00	(423,255)	0	(1,137,418)	(1,560,673)	0.00	(475,293)	0	(1,248,657)	(1,723,950)
DP 355 - Chemical Dependency Access Payment										
33	0.00	271,200	0	728,800	1,000,000	0.00	275,700	0	724,300	1,000,000
Total	2.90	(\$1,306,997)	\$1,452,605	\$5,504,542	\$5,650,150	2.90	(\$1,354,603)	\$1,470,605	\$5,546,063	\$5,662,065

New Proposals

New proposals add \$11 million total funds, fund 2.90 new FTE and include a \$3 million general fund reduction over the biennium. The most significant changes include a funding switch, which uses \$2 million in state special alcohol tax proceeds previously distributed to state-approved local chemical dependency programs in place of general fund for mental health Medicaid match, and \$11 million in federal Medicaid funds to match school expenditures for mental health services for Medicaid eligible children.

Other Issues

There are two other significant issues related to the AMDD budget that transcend individual appropriation decisions and funding sources: overall direction of mental health services and the implied policy or vision; and mental health state institution cost increases despite downsizing.

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Mental Health System Policy/Vision

The legislature will be reviewing a mental health budget request that involves significant policy changes for involuntary mental health commitments. The proposal to cap the state hospital population and implement BHIFs clearly links policy and appropriation decisions. Without statutory changes to establish a policy to cap state hospital admissions, the successful implementation of the executive budget proposal will be nearly impossible.

However, the policy decision that cannot be easily deduced through review of the executive request is the future direction of mental health services. One month prior to the last session, the executive proposed moving to a "new" regional managed system for mental health services. The executive decision was closely linked to a consultant's review of mental health services and recommendation for Montana. The 2001 legislature endorsed the executive proposal and appropriated funds, including funding for FTE, to implement a regional system.

During the 2001 session, AMDD staff anticipated that a pilot regional contract could be let by the second year of the biennium. The pilot program would have been structured to ensure smooth transition to state wide implementation after 1 to 2 years experience.

During the interim AMDD defined three mental health regions within the state and has begun planning within each region to define preliminary regional entities. Additionally, AMDD has worked to define outcome measures and develop a plan to serve mentally ill persons in the least restrictive environment as a first step to comply with the U.S.

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Supreme Court Olmstead decision. All of these elements could complement development of the regional managed care contract and the current BHIF proposal would seem to dovetail with the regional plan concept. However, a great deal more work remains before a regional contract could be let, including integration of outcome measures and the Olmstead planning effort with the regional concept.

The current budget situation and several rounds of spending cutbacks first initiated in December 2001 to avoid a supplemental appropriation, implement Section 17-7-140, MCA, and implement August 2002 special session reductions have introduced a degree of instability into mental health services that exacerbates effective planning for regional implementation. Despite the uncertainties however, slow progress is being made in at least one region.

The Executive Budget proposes reductions in community services that will place additional burdens on hospital capacity and funding, even if BHIFs are feasible and quickly implemented. Additionally, many community services have been limited or eliminated and eligibility has been reduced. It is probable that hospital services will expand beyond the forecast level in the Executive Budget, which would necessitate funding shifts from community services to cover additional hospital costs. So, a repetition of the spending reductions in the 2005 biennium might be necessary.

Significant staff resources have been diverted to managing crises and developing cost containment measures during the 2003 biennium. As one DPHHS staff person noted, it is difficult to manage and plan for system change at the same time that significant spending reductions must be enacted. However, the current executive budget proposal has the potential to continue the same type of crisis response situation that has existed over the last several years.

The legislature may want to ask the executive to articulate its goals for mental health services over the coming biennium and the longer term. The legislature may want to ask the executive how it will manage its resources, including allocation of scarce staff resources, to ensure that long term planning can continue and progress.

Base Expenditures Compared to 2005 Biennium Budget Request Institutions Administered by Addictive and Mental Disorders Division			
Institution Cost/Funding	Actual Fiscal 2002*	Requested Fiscal 2004	Requested Fiscal 2005
<u>Montana State Hospital</u>			
FTE	361.80	335.97	335.97
Personal Services	\$ 13,043,902	\$ 16,077,981	\$ 16,191,258
Gen. Fund - One Time**	2,099,455		
All Other	3,562,634	3,899,997	4,113,372
Total	\$ 18,705,991	\$ 19,977,978	\$ 20,304,630
General Fund	\$ 18,630,991	\$ 19,902,978	\$ 20,229,630
State Special Rev.	75,000	75,000	75,000
Population	175.75	135	135
Costs Per Person	\$ 106,435	\$ 147,985	\$ 150,405
Cost Per Day	\$ 292	\$ 405	\$ 412
Percent Increase		39.0%	1.6%
<u>Mental Health Nursing Care Center</u>			
FTE	144.26	122.70	122.70
Personal Services	\$ 4,760,355	\$ 4,418,035	\$ 4,453,825
All Other*	1,914,818	1,770,068	1,856,474
Total	\$ 6,675,173	\$ 6,188,103	\$ 6,310,299
General Fund	\$ 6,675,173	\$ 6,188,103	\$ 6,310,299
State Special Rev.			
Population	114.75	70	70
Cost Per Person	\$ 58,171	\$ 88,401	\$ 90,147
Cost Per Day	\$ 159	\$ 242	\$ 247
Percent Increase		52.0%	2.0%
<u>Montana Chemical Dependency Center</u>			
FTE	48.25	48.25	48.25
Personal Services	\$ 1,602,803	\$ 2,051,481	\$ 2,062,241
All Other*	962,827	1,074,399	1,128,780
Total	\$ 2,565,630	\$ 3,125,880	\$ 3,191,021
State Special Rev.	\$ 1,966,013	\$ 2,476,355	\$ 2,321,567
Federal Funds	599,617	649,525	869,454
Population	53.85	53.85	53.85
Cost Per Person	\$ 47,644	\$ 58,048	\$ 59,258
Cost Per Day	\$ 131	\$ 159	\$ 162
Percent Increase		21.8%	2.1%
<u>Total Division Institution Budget</u>			
FTE	554.31	506.92	506.92
% of Division Total	94.5%	93.6%	93.6%
General Fund**	\$ 25,306,164	\$ 26,091,081	\$ 26,539,929
% of Division Total	48.4%	52.4%	50.2%
Annual Growth Rate			2.4%
*Fiscal 2002 FTE are the number of FTE that were funded by the 2001 legislature.			
**\$2.1 million of expenditures from a one time only general fund appropriation are included in this table to compare actual base budget experience at MSH with the 2005 biennium request.			

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ISSUE
(Cont.)**

The legislature may also want to consider its priorities for the longer-term goals and policy for publicly funded mental health services. If the legislature has different goals and policies than articulated by the executive or that seem feasible to implement given the current budget situation, it may want to consider several alternatives.

Does the legislature want the executive to continue to pursue a regional mental health managed care system and if so, what kind of direction does it want to establish, including formal or informal timelines, milestones, and/or reporting requirements? If the legislature establishes goals and policies different than those articulated by the executive, it may need to review the budget proposal to determine whether sufficient funding exists or whether it desires to stipulate how certain funds must be used.

Does the legislature want to delegate broad management authority to the executive, including accepting the executive policies as guidance?

The legislature always has the option to take no action.

Mental Health Institution Costs

The figure on the previous page shows the base expenditures for the chemical dependency center and two state mental health institutions compared to the 2005 biennium request. The Executive Budget proposes to lower the average daily population of both mental health institutions - 41 persons for the state hospital and 35 for the nursing care center - and to provide services for those persons in the community. The Executive Budget also reduces funding for FTE - 22.93 FTE at the state hospital and 21.56 FTE at the nursing care center. In addition, two wings of the nursing care center will be closed.

Despite these proposed reductions in institutional costs, the total general fund cost of the 2005 biennium Executive Budget is higher than continuing to serve persons in the institutions if DPHHS were to manage institutions in the same manner as during the base budget year.

The executive request for the two mental health institutions rises significantly despite the reductions in population and staff. While one would expect an increase in the average daily cost because fixed costs form a higher proportion of the total cost, it seems odd that it would require more funds to operate the state hospital at a lower population than it did in the base budget year. While the total annual nursing care center budget request is lower than the base budget, it is not significantly lower, despite closing two wings. Furthermore, the percentage increase between the base budget and fiscal 2004 at each mental health institution is significantly higher than that of the chemical dependency institution where the population and staffing remain stable.

The legislature may wish to know the kinds of efficiencies implemented at the mental health institutions during the base budget year to determine if any of them could be ongoing and mitigate increases.

Sub-Program Details

MENTAL HEALTH 01

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	516.06	(44.49)	0.00	471.57	(44.49)	0.00	471.57	471.57
Personal Services	18,144,125	2,827,874	19,884	20,991,883	2,976,594	20,389	21,141,108	42,132,991
Operating Expenses	8,539,763	6,298,841	156,197	14,994,801	6,682,850	173,316	15,395,929	30,390,730
Equipment	23,990	36,000	0	59,990	9,000	0	32,990	92,980
Grants	649,156	16,992	0	666,148	16,992	0	666,148	1,332,296
Benefits & Claims	89,219,305	5,028,370	3,439,327	97,687,002	13,714,321	4,276,050	107,209,676	204,896,678
Debt Service	27,995	0	0	27,995	0	0	27,995	55,990
Total Costs	\$116,604,334	\$14,208,077	\$3,615,408	\$134,427,819	\$23,399,757	\$4,469,755	\$144,473,846	\$278,901,665
General Fund	49,670,583	801,333	(1,562,214)	48,909,702	3,940,228	(1,614,354)	51,996,457	100,906,159
State/Other Special	2,564,870	1,205,372	1,339,304	5,109,546	1,205,372	1,356,960	5,127,202	10,236,748
Federal Special	64,368,881	12,201,372	3,838,318	80,408,571	18,254,157	4,727,149	87,350,187	167,758,758
Total Funds	\$116,604,334	\$14,208,077	\$3,615,408	\$134,427,819	\$23,399,757	\$4,469,755	\$144,473,846	\$278,901,665

The Mental Health Bureau administers state institutional and community mental health services for adults and residential and community mental health services for children. MSH and MMHNCC are state institutions funded from general fund and Medicaid funds. Matching federal Medicaid funds are available for services provided by an institution for mental disease to persons under age 22 and over age 65. Community services are funded from Medicaid and general fund for Medicaid eligible adults and children and from the MHSP program for adults with a serious and disabling mental illness, below 150 percent of the federal poverty level.

The mental health function comprises the largest share of the division budget request with 90 percent of the total funds and nearly all of the general fund (98 percent). Net general fund changes over the biennium are about a \$1.6 million increase, while total funds increase \$45 million. General fund changes embody some significant policy changes including:

- Reducing MHSP capacity from about 3,000 slots to 350 slots - \$16.2 million
- Reducing MSH capacity to 135 from 189
- Contracting for services from 3 new 15-bed BHIFs
- Reducing MMHNCC to 70 from 165, although the institution had a population of 105 in November 2002
- Contracting for community services for 35 current residents of MMHNCC

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds		FTE	General	State Special	Federal Special	Total Funds
Personal Services				3,967,558						4,089,143
Vacancy Savings				(884,457)						(889,329)
Inflation/Deflation				15,617						23,167
Fixed Costs				303,079						319,076
Total Statewide Present Law Adjustments				\$3,401,797						\$3,542,057
DP 135 - Mental Health Intergovernmental Transfer Caseload	0.00	0	436,612	1,172,368	1,608,980	0.00	0	445,612	1,163,368	1,608,980
DP 140 - Block Grant Increase	0.00	4,248	0	12,744	16,992	0.00	4,248	0	12,744	16,992
DP 141 - MH UR Contract /Retrospective Reviews	0.00	(287,810)	0	209,334	(78,476)	0.00	(206,368)	0	453,660	247,292
DP 143 - Medicaid Program Changes	0.00	3,350,771	111,527	6,724,617	10,186,915	0.00	5,994,587	111,527	12,828,552	18,934,666
DP 144 - Mental Health Block Grant Increase	0.00	0	0	50,000	50,000	0.00	0	0	50,000	50,000
DP 147 - MMHNCC Base Adjustments and Restructuring	(21.56)	(31,651)	0	1,629,324	1,597,673	(21.56)	64,002	0	1,619,263	1,683,265
DP 344 - Restructure/Reduce Mental Health Services Plan	0.00	(8,054,160)	(233,506)	(708,161)	(8,995,827)	0.00	(8,116,907)	(233,506)	(708,161)	(9,058,574)
DP 351 - IGT Refinancing - Medicaid Caseload	0.00	(657,600)	657,600	0	0	0.00	(648,600)	648,600	0	0
DP 352 - Mental Health Community Services FMAP Change	0.00	72,480	0	(72,480)	0	0.00	214,582	0	(214,582)	0
DP 354 - Medicaid Eligibility Changes	0.00	(15,546)	0	(41,777)	(57,323)	0.00	(15,546)	0	(40,830)	(56,376)
DP 8146 - MSH Base Adjustments and Restructuring (Requires Legislation)	(22.93)	2,987,324	233,506	3,256,516	6,477,346	(22.93)	3,077,012	233,506	3,120,937	6,431,455
Total Other Present Law Adjustments	(44.49)	(\$2,631,944)	\$1,205,739	\$12,232,485	\$10,806,280	(44.49)	\$367,010	\$1,205,739	\$18,284,951	\$19,857,700
Grand Total All Present Law Adjustments				\$14,208,077						\$23,399,757

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 135 - Mental Health Intergovernmental Transfer Caseload - The community mental health centers participate with DPHHS in an intergovernmental transfer program for Medicaid services to encourage the delivery of services in frontier or rural areas of Montana. The mental health centers provide the Medicaid match for this program. This proposal requests \$882,224 state special revenue and \$2,335,736 federal Medicaid funds for the biennium for anticipated caseload and utilization changes.

Community mental health centers provide the bulk of Medicaid services in frontier counties. Due to the widely distributed nature of the population in these counties, the productivity of clinicians and other providers is necessarily less than for comparable services delivered in Montana's relatively few population centers.

To provide essential face-to-face treatment services and case management, either a mobile professional must spend extensive time and resources traveling great distances or a professional must be permanently located in a smaller community with a much-reduced caseload. In either event, the cost of providing services to communities in frontier counties is substantially greater. Provision of these services helps persons remain in the community, potentially preventing a greater cost for possibly including commitment at MSH.

DP 140 - Block Grant Increase - This request adds \$34,000 total funds, including \$8,496 general fund over the biennium to maximize the amount of Homeless or PATH Grant funds. The federal grant is \$300,000 per year and requires a 25 percent general fund match. Base year expenditures were \$283,008. Additional authority would be required to maximize this federal source.

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The 2001 legislature appropriated \$304,036 for the Homeless or PATH Grant funds, along with all general fund match requested by AMDD. Base year expenditures were \$283,008. It appears that the appropriation made by the last legislature was sufficient to fund the entire grant and matching funds, but that the match was diverted for other uses.

DP 141 - MH UR Contract /Retrospective Review - This present law adjustment requests an annual contract increase of 5 percent per year in fiscal 2004 and fiscal 2005, for a total biennial increase of \$150,000 in operating costs. The contract was funded at a higher percent of general fund during the base budget year because it included functions related to MHSP that were funded entirely from the general fund. The contract would be funded at 25 percent general fund and 75 percent federal funds in the 2005 biennium since it would be related to Medicaid functions. This funding change results in a net decrease of \$494,178 general fund and an increase of \$662,994 federal funds over the 2005 biennium.

DP 143 - Medicaid Program Changes - AMDD requests \$9.4 million general fund, \$0.2 million in state special revenue tobacco settlement revenue, and \$19.6 million in federal funds for mental health Medicaid caseload and utilization increases over the biennium. The request would fund an 11 percent annual growth in mental health services in fiscal 2004 and fiscal 2005, consistent with growth rates since fiscal 2000.

DP 144 - Mental Health Block Grant Increase - The department requests an increase of \$100,000 federal funds for the biennium from an anticipated increase in the federal Community Mental Health Block Grant for fiscal 2004 and fiscal 2005. The block grant is used to serve adults in community mental health settings. This federal grant provides a relatively small, but important, source of funding for community mental health services. The grant funds are intended to help the state develop an effective system of mental health care and are spent in accordance with a state plan approved by the Center for Mental Health Services.

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The federal mental health block grant is estimated to provide \$1.3 million in federal funds each year of the 2005 biennium. It requires a maintenance of effort equal to the average of the two previous years' state expenditures for community mental health services. DPHHS estimates that the proposed Executive Budget will not be able to maintain that maintenance of effort. DPHHS wrote a letter to SAMSHA (Substance Abuse and Mental Health Administration) to determine if the block grant would be withheld or not and, if so, how much block grant the state could expect. LFD staff has requested that this information be provided to the legislature.

DP 147 - MMHNCC Base Adjustments and Restructure - This proposal to restructure services for MMHNCC residents reduces funding for 21.56 FTE, and requests an increase of \$32,351 general fund and \$3,248,587 federal funds over the biennium. MMHNCC has experienced a slow but steady decline in utilization for more than a decade as expanded community mental health and private nursing home services have provided for alternative care options. The current MMHNCC patient census is about 105. The Center is using 4 of its 6 wings for patient care. Among the current residents are about 35 individuals who are younger than 65. These people have had long histories of institutional care, primarily at MSH, and multiple placements in community services.

DPHHS proposes the creation of an intensive community support program for these 35 residents in order to serve them outside the institution in programs that will allow for federal financial participation. The plan includes the closure of a wing at the center and a reduction of the capacity to 75. The savings from the reduced cost at the center will leverage substantial federal money for community programs and provide services for this group of residents in a less restrictive, more integrated, setting.

The department has asked major community mental health providers to review the needs of these residents and to assist with planning the necessary services. At least one provider has already indicated that it believes appropriate community services can be created for these people.

The average cost per person to serve 35 persons in the community is almost half the average per person cost of downsizing MMHNCC and no longer providing institutional services: \$127 per day in the community compared to \$242 in the institution in fiscal 2004. The average of the community services proposal is significantly lower than the average cost for high-level secure care - \$188.44 per day in fiscal 2003 or intermediate level care - \$142.69 per day in fiscal 2003

**LFD
COMMENT**

The executive proposal inadvertently omitted reductions in overtime due to reduced funding for FTE. The proposal could be reduced by \$37,484 general fund in fiscal 2004 and \$38,731 in fiscal 2005.

DP 344 - Restructure/Reduce Mental Health Service - This proposal both reduces the size of and restructures MHSP for a biennial savings of \$16.2 million general fund, \$0.5 million state special revenue funds and \$1.4 million federal funds.

MHSP is a non-Medicaid program that provides mental health services for adults who have serious mental illnesses and incomes below 150 percent of the federal poverty level. Expanded mental health services for seriously emotionally disturbed children in families with incomes below 150 percent of the federal poverty level were eliminated during fiscal 2002 as part of the DPHHS effort to avoid general fund cost over runs.

The Executive Budget reduces the size of this program and restructures it. MHSP has been a quasi-entitlement program since 1999. Although membership has been capped, once in the program members have had access to a wide variety of services based on medical necessity and, until very recent changes, there has been a wide range and high number of providers participating in the program.

In order to get maximum benefit from a reduced funding level, MHSP will be restructured as a program contracted out to a limited number of providers on a "slot" basis. That is, each contracted agency will have a certain capacity of MHSP clients for whom the department will fund services. Separate adult and youth caps will be established, however, youth services are limited to \$671,928 general fund annually. The general fund used for youth services is also counted toward the TANF maintenance of effort.

Criteria for eligibility for MHSP services will be tightened to assure only the most in need are served. Additional criteria (beyond 150 percent of poverty and serious mental illness) that will be used include previous MSH or residential treatment admissions, co-occurring substance abuse, history of dangerous behavior, and a primary diagnosis of a "severe mental illness" as defined in section 33-22-706, MCA.

The department is working on a plan for defining and allocating the slots but the initial analysis indicates that the MHSP program will be able to establish 350 slots for adults and 100 slots for youth under 18. These numbers are a significant reduction from the 3,073 people enrolled in the MHSP program on August 1, 2002.

**LFD
ISSUE**

There are several issues related to this proposal:

- Potential loss of federal mental health block grant - \$1.3 million
- Potential impact to Montana State Hospital
- Potential of reducing impact through a federal Medicaid waiver

Potential Loss of Federal Mental Health Block Grant

As noted in the division-funding summary, the state must maintain a maintenance of effort (MOE) equal to the average state expenditures over the previous two years to receive the mental health block grant, which is budgeted in support of this proposal.

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(continued)**

DPHHS staff has indicated that the MOE will not be met during fiscal 2004 and maybe not during fiscal 2005. DPHHS is in contact with appropriate federal authorities to determine whether the block grant will be fully or partially withheld. If it is withheld, and the funding in this proposal reduced proportionally, the adult slots would be reduced from 350 to 238. Children's services would not be impacted since a fixed amount of general fund (about \$672,000) is allocated from the general fund that supports the TANF block grant and must be spent for those services.

Potential Impact to Montana State Hospital

MHSP provides community services, including prescription medication, to seriously mentally ill adults. Persons who are no longer eligible for services may decompensate and require hospital services. Loss of community services could increase the need for and use of state hospital services.

Potential of Reducing Impact Through a Federal Medicaid Waiver

DPHHS has been evaluating a waiver request to help reduce Medicaid costs. Elements of the waiver, most notably the provision of basic Medicaid services to TANF eligible Medicaid recipients, are necessary to continue Medicaid changes included in the FAIM waiver, which expires December 2003. DPHHS initially believed it could provide an expansion within the waiver proposal to fund a limited package of physical health services and continue mental health services for former MHSP recipients, and fund the total package through Medicaid. DPHHS anticipated refinancing MHSP expenditures funded fully from the general fund with 72 percent federal Medicaid matching funds. However, preliminary direction from the Centers for Medicare and Medicaid Services (CMS) indicated that, since a fully state funded program would be refinanced through Medicaid, it would require a maintenance of effort (MOE). Further federal direction indicated that if another group were added to the mental health expansion group, there would not be an MOE requirement. It could be possible to add an expansion group of low-income pregnant women, potentially offsetting some of the service losses due to elimination of the MIAMI program, and manage the program within initial anticipated funding levels. LFD staff has requested an update on the executive waiver proposal for legislative consideration and discussion.

DP 351 - IGT Refinancing - Medicaid Caseload - The community mental health centers typically receive county tax funds of about \$1.2 million per year. Under this proposal, the counties would pay these funds to DPHHS to provide the Medicaid match for this program, saving \$1,306,200 general fund over the biennium and replacing it with \$1,306,200 state special revenue funds for the biennium, for anticipated caseload and utilization changes, and to pay mental health service providers. This proposal is a companion decision package with DP 135.

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ISSUE**

DPHHS has not indicated how much of the county funds will be used to replace general fund Medicaid match and how much of the county funds will be returned to community mental health centers in the form of higher payments. The legislature may wish to know if or how AMDD plans to allocate funds equivalent to the nonfederal match. This proposal has the potential to divert all county support of community mental health centers to offset general fund Medicaid match, unless counties specify under what type of conditions they will participate.

DP 352 - Mental Health Community Services FMAP - This proposal increases general fund \$287,062 and reduces federal funds by a like amount to adjust for the changes in the federal Medicaid match rate.

**LFD
COMMENT**

The legislature could consider including the matching rate change in the present law caseload adjustment as is done in other DPHHS programs. That approach allows data to be more comparable among programs and will help ensure that fewer mistakes are made

DP 354 - Medicaid Eligibility Changes - This proposal reduces Medicaid expenditures over the biennium by \$31,092 general fund and \$82,607 federal funds due to Medicaid eligibility changes, primarily regarding changes in the treatment of assets. See related discussion in the agency overview.

DP 8146 - MSH Base Adjustments and Restructuring - This proposal requests \$6.1 million general fund, \$0.5 million state special revenue and \$6.4 million federal funds and a reduction of 22.93 FTE for the biennium to cap MSH patient capacity at 135 and to create 45 community-based inpatient psychiatric beds to offset the reduced capacity at MSH.

The MSH patient population grows at about 0.4 percent per month. The licensed capacity of 189 has already been exceeded twice during the 2003 biennium and, if the census continues to grow at the same rate, the monthly average will exceed capacity by December 2003.

Aside from state policy expressed in Title 53, Chapter 21 to use least restrictive services whenever possible and direction in the U.S. Supreme Court *Olmstead* decision to serve people with disabilities in the most integrated setting possible, there are financial reasons to consider alternatives to simply expanding the MSH capacity. Federal Medicaid regulations prohibit federal financial participation in services provided by "institutions for mental diseases" of 16 beds or larger to Medicaid recipients between the ages of 21 and 64. The department's approach would be to create three 15-bed "Behavioral Health Inpatient Facilities" (BHIFs), 1 in each of 3 communities, to provide more dispersed capacity, which would be eligible for Medicaid federal funding.

The three BHIFs would be privately operated with contracts with the DPHHS to serve individuals who are involuntarily committed for psychiatric inpatient treatment. These facilities are similar in concept to small freestanding inpatient facilities that are used for a similar population in Arizona.

Legislation will be required to implement this decision package. The legislation would: 1) give the department authority to create BHIFs and limit the size and number of them; 2) require judges to use BHIFs rather than MSH for commitments if a bed is available at a BHIF; 3) require law enforcement to use BHIFs for emergency detentions of people suspected of being seriously mentally ill; 4) allow for the transfer of committed persons from BHIFs to MSH if longer term (more than 30 days) treatment is required; 5) provide the authority to cap the MSH patient capacity or create financial incentives to use other services when the MSH budgeted capacity is reached.

Under this plan MSH would be used for the treatment of all criminally committed individuals and those civilly committed individuals who require longer-term treatment than can be provided at a BHIF. The department believes the creation of 45 BHIF beds, with appropriate utilization management, will enable MSH to operate within a 135 patient census.

This proposal assumes a staffing pattern and operational costs similar to those at MSH. There is an assumption that 70 percent of the patients will be Medicaid eligible. The time necessary to transition to full implementation of the three BHIFs is unknown. To the extent the transition creates additional costs, the department will have to cover those costs by shifting resources from other mental health programs.

The executive notes that it believes the alternative to creation of BHIFs is continued patient census growth at MSH and growing general fund costs. The additional costs of the expanding patient census in the coming biennium are:

Restoring funds to serve an average patient census of 175	\$4,528,309
Additional funds necessary to serve a patient census that will reach 204 by 6/05	\$3,276,390
Building renovations necessary for expanded population	\$1,200,000
Biennium Total	\$9,004,699

**LFD
ISSUE**

There are several issues related to this proposal:

- Legal ability of the state to cap MSH capacity and continue to receive Medicare reimbursement
- Feasibility of BHIFs and the proposal in general
- Enacting statutory changes that reflect appropriation action
- Impact of the proposal on Medicare reimbursement

Legality of Capping MSH Capacity

MSH was licensed as a hospital about two years ago, enabling DPHHS to claim Medicare reimbursement for MSH services. Federal Medicare and Medicaid reimbursements for both MSH and MMHNCC are first applied to repayment of MSH construction bonds and Medicaid reimbursements may be appropriated to support mental health managed care. Any remainder is deposited to the general fund. About \$2.6 million of Medicare reimbursement for MSH services is estimated to be collected each year of the 2005 biennium. As a hospital licensed to accept Medicare reimbursement MSH is required to comply with the federal Emergency Medical Treatment and Active Labor Act (EMTALA).

EMTALA is a federal law which requires hospitals that receive Medicare funds to treat individuals who come to the hospital with an emergency medical condition, regardless of their ability to pay. If the hospital is capable of providing the necessary emergency care to a patient and an emergency medical condition is found to exist, the hospital is prohibited from refusing to provide any treatment to the individual or from transferring the patient to another medical facility without good cause. Thus, an appropriate medical screening must be provided to every person who comes to an emergency treatment center in order to determine whether an emergency medical condition exists or, in the case of a pregnant woman, whether labor is imminent. In either instance, the hospital must treat and stabilize the patient prior to discharge or transfer, except under certain limited circumstances.

When transferring a patient who has not been stabilized, the transferring hospital is required to provide medical treatment within its capability to minimize the risks to the individual's health. Further, the transferring hospital must provide an appropriate transfer which means that the transfer must be effected through qualified personnel and transportation equipment. The patient's medical records, the results of any tests performed and the informed written consent to transfer or appropriate certification must be forwarded to the receiving facility. In turn, the receiving facility must agree to accept the transfer and have both available space and qualified personnel to treat the patient. If a medical facility has specialized facilities (e.g., a burn unit), it cannot refuse to accept an appropriate transfer if it has the capacity to treat that person.

Any statutory changes enacted by the legislature to cap MSH capacity must consider how MSH compliance with EMTALA will be impacted. If Medicare reimbursement is threatened or curtailed due to non-compliance, it could result in lower general fund revenues.

Enacting a statutory cap on enrollment may not comply with EMTALA. In cases interpreting EMTALA, courts have held that the definition of capacity includes historical information about a hospital's willingness to accept patients above its occupancy level.

DPHHS has considered two separate proposals that would allow it to effect the cap: 1) assign involuntary commitments to DPHHS; and 2) charge counties for use above historic levels. The first option would allow DPHHS to determine appropriate services for persons involuntarily committed to its care, thereby managing resources and contracting for appropriate care from other providers as necessary. The second option would provide a budget cap that, when exceeded, would garner the additional resources from counties that exceed their historic use. Counties have never been financially responsible for costs beyond the culmination of the court commitment proceeding. As of early December 2002, DPHHS had not determined the manner in which historic use would be calculated nor the charge to counties.

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ISSUE
(Continued)**
Impact on Medicare Reimbursement

Currently, MSH is expected to generate about \$2.6 million in Medicare reimbursement each year of the 2005 biennium. Medicare payments are first applied to MSH bond debt and then the balance is deposited to the general fund. Under this proposal a share, perhaps a significant share, of Medicare reimbursement formerly recouped by MSH might be paid to BHIFs. If that were the case, the revenue available to repay bonds, as well as general fund revenue, would be reduced and the general fund impact of implementing BHIFs could be understated.

The impact on Medicare reimbursement to MSH would depend on licensure and/or certification criteria for a BHIF. If BHIFs are inpatient hospital facilities they will most likely be eligible to receive Medicare reimbursement.

Medicare provides 90 days of reimbursement for an episode of inpatient hospital services related to mental health, with a lifetime limit of 190 days in an institution of mental disease (state hospital). So, if a Medicare eligible person who is involuntarily committed spends the first 30 days in a BHIF, which is paid by Medicare, and then is transferred to the state hospital, MSH could collect up to 60 days of Medicare reimbursement if necessary.

DPHHS is preparing additional analysis regarding average length of stay for persons involuntarily committed to MSH and the average Medicare reimbursement. Data on of November 30, 2002 indicated that 35 percent of persons involuntarily committed to and on campus at the state hospital were Medicare eligible.

Feasibility of BHIFs

Two groups studied mental health issues throughout the 2003 biennium and were closely assisted by DPHHS - the interim legislative study authorized by HJR 1, and the Mental Health Oversight Advisory Council. During that time, DPHHS anticipated that it would be moving to a regional managed care system as proposed by its consultants in December 2000 just prior to the 2001 legislative session. During the last meeting of the HJR 1 study, DPHHS staff proposed the BHIF idea as a solution to address the problem of a higher number of commitments to MSH than budgeted. There are numerous issues related to BHIFs, largely due to the last minute nature of the proposal.

LFD staff has asked DPHHS to provide the following information related to the BHIF proposal. These are basic questions that DPHHS should be able to answer in order to assure the legislature that this proposal will work and produce the promised outcomes.

- Is a BHIF a stand-alone facility or part of an existing hospital or other health care facility?
- If it is not part of another facility:
 - What are the licensing or certification criteria?
 - What are the staffing requirements?
 - Will all BHIFs have emergency room capability as well as longer term inpatient capability? If so, how many of the 15 beds in each facility will be allocated between the two types of medical care?
 - Will BHIFs be subject to EMTALA?
- Provide the timeline with critical milestones identified for developing BHIFs.
- What will happen if the BHIFs and MSH are full and there are additional: 1) involuntary commitments; or 2) emergency detentions?
- Will DPHHS provide start up costs for BHIFs, and if so, are start up costs for BHIFs included in this proposal?
- Will DPHHS sole source or competitively procure for the BHIFs?
- What is the assumed patient mix by funding source for BHIFs?
- What entity or who will pay for BHIF services if a person is not eligible for Medicaid, Medicare, or Indian Health Services, does not have private insurance, is not eligible for county funding, and does not have the ability to pay for services?

**LFD
ISSUE
(Continued)**

Community providers are reducing the capacity of services that are very similar to those provided by a BHIF, citing the losses due to such services. Deaconess Hospital in Billings has reduced the number of inpatient psychiatric beds, the Golden Triangle Mental Health Center has closed an 8 bed crisis facility in Helena, and the St. Peter's Hospital inpatient psychiatric unit in Helena was closed permanently after a temporary closure due to a lack of psychiatrists and lack of profitability. So questions regarding start up costs, daily rates, patient eligibility for public funding sources, and payment responsibilities are highly germane.

BHIFs have been successful additions to the continuum of mental health services in other states. However, success in other states is related to the mix and availability of other community services as well other considerations, such as construction of specific types of buildings, provision of start up costs by the state, and competitive rates. BHIFs are being proposed at a time when funding and eligibility for mental health community services is being reduced, which seems another obstacle. The question of what happens if BHIFs are full to capacity and MSH has a population of 135 become more important when services that may have prevented hospitalization are being curtailed.

At this point, it is not clear whether BHIFs will be stand alone hospitals or associated with existing medical facilities. It would seem that if BHIFs were stand alone hospitals, the daily cost could be high because the facility would not have the economies of scale that benefit full sized hospitals. It is also unclear how BHIFs will recruit and retain adequate staff resources if they are stand alone hospitals.

It is unclear whether BHIFs would be required to comply with EMTALA. If BHIFs are a type of hospital and accept Medicare reimbursement, they might be subject to EMTALA. It is also unclear how BHIFs would control the number of persons committed to their care. Unless the statutory mental health involuntary commitment process is changed, BHIFs may face the same population and capacity predicaments as MSH.

The executive used a rate of \$380 per day if all 15 beds of each BHIF are full at all times, for an annual per facility cost of \$2,075,150. If BHIFs are to be licensed hospitals, that rate may not be sufficient to cover costs, especially if the daily population fluctuates.

The Executive Budget does not include either start up costs for BHIFs or transition costs at the MSH while these facilities are coming on line. The assumption that a private entity would construct a new facility in the current unstable funding environment for mental health services might be questionable. In the developmental disability system, DPHHS has provided start up grants for specialized group homes and worked with providers to obtain favorable financing. Other states that have services similar to BHIFs have provided start-up grants because in those states BHIFs were specifically designed to provide the necessary specialized services. It may be unrealistic to assume that existing structures, such as a large house for instance, could be remodeled to provide BHIF services.

Based on data from the MSH regarding admissions, DPHHS estimated that 70 percent of the individuals admitted to BHIFs would be Medicaid eligible. However, it appears that assumption may be too high. Data for MSH on November 30, 2002 shows that about 13 percent of non-forensic patients on campus were Medicaid eligible and 24 percent were eligible for both Medicare and Medicaid, bringing the potential total of those Medicaid eligible to 37 percent. Additionally, BHIF admission patterns may be different than current MSH admission patterns due to potential admissions of persons who lose community MHSP services.

Enacting Statutory Changes to Reflect Appropriation Action

If the legislature accepts the executive proposal to cap the MSH population and contract with three BHIFs, it should enact changes to statute to allow and facilitate implementation of the proposal. Without appropriate statutory changes, successful implementation of a cap for MSH will be nearly impractical. Furthermore, if successful lawsuits were brought against DPHHS because such changes were not made, the court decision could constrain future legislative actions and policies. The policy changes to cap the MSH population may be more contentious and difficult than reviewing appropriation issues.

**LFD
COMMENT**

If the legislature adopts the executive proposal to implement BHIFs, it might want to consider allocating the appropriation to the benefits category of expenditure. The executive includes the request in operating costs as if BHIFs are the cost to operate a state agency cost rather than a direct service to individuals provided through contracts. Other hospital service benefits provided to individuals by contractors and funded through Medicaid are budgeted and expended in the benefits category. This distinction is important because it indicates that funds are appropriated to services for individuals rather than operating costs for state agencies, or specifically in the case of AMDD, state mental health institutions.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 154 - MSH DoC Agreements										
01	4.00	0	339,304	0	339,304	4.00	0	356,960	0	356,960
DP 287 - FTE Reduction										
01	(4.00)	(138,959)	0	(24,264)	(163,223)	(4.00)	(139,061)	0	(24,194)	(163,255)
DP 339 - Federal Medicaid for School-based Mental Health										
01	0.00	0	0	5,000,000	5,000,000	0.00	0	0	6,000,000	6,000,000
DP 350 - Alcohol Tax - General Fund Replacement										
01	0.00	(1,000,000)	1,000,000	0	0	0.00	(1,000,000)	1,000,000	0	0
DP 353 - Medicaid Provider Reimbursement Reduction										
01	0.00	(423,255)	0	(1,137,418)	(1,560,673)	0.00	(475,293)	0	(1,248,657)	(1,723,950)
Total	0.00	(\$1,562,214)	\$1,339,304	\$3,838,318	\$3,615,408	0.00	(\$1,614,354)	\$1,356,960	\$4,727,149	\$4,469,755

DP 154 - MSH DoC Agreements - This proposal requests \$696,264 of state special revenue authority and funding for 4.00 FTE at the Montana State Hospital for the services related to the DPHHS agreement with the Department of Corrections for maintenance and utility costs.

DP 287 - FTE Reduction - This proposal reduces 5.00 FTE for a saving of \$309,952 general fund and \$66,420 in federal funds for the biennium. The funding reduction is allocated 3.00 FTE to MSH and 2.00 FTE to the central office, of which 4.00 FTE are in the mental health services function. The central office FTE are an adult program mental health services officer and an administrative support person.

DP 339 - Federal Medicaid for School-based Mental Health - The Executive Budget includes an increase of \$11 million in federal Medicaid funds for the biennium to match in-school mental health programs that are currently being re-financed through the use of state and local education funds for non-federal match.

DP 350 - Alcohol Tax - General Fund Replacement - This proposal switches \$2 million general fund to alcohol tax special revenue funds to continue to provide Medicaid mental health services. These funds were previously distributed to counties and passed through to alcohol and drug programs.

**LFD
ISSUE**

This proposal would make permanent a temporary funding switch authorized by the August 2002 special session. This proposal would require an amendment to Section 53-24-108, MCA in order to use alcohol tax revenue allocated to DPHHS for Medicaid matching funds for mental health services. The temporary amendment allowing this use of alcohol taxes that was enacted by the August 2002 special session expires June 30, 2002. This proposal has the same issues as those reviewed by the special session:

- Alcohol tax proceeds are a much more flexible funding source than block grant and Medicaid funding
- Alcohol tax is used as a match for other grants, which may be reduced or eliminated without necessary matching funds
- Alcohol tax can be used to fund services for low-income persons who are not Medicaid eligible

**LFD
ISSUE
(continued)**

DPHHS contracts with 27 approved chemical dependency programs that provide services in all 56 counties. DPHHS cannot provide an estimate of the number of persons who receive services supported by alcohol tax.

State approved programs are supported by alcohol tax funds, the federal SAPT block grant and private payments. Some of the larger state approved programs are also Medicaid providers and receive Medicaid funding. Some programs receive other federal grants and in some cases, the alcohol tax funds provide the non-federal match required for those federal grants. Therefore, a reduction in the alcohol tax may reduce or eliminate receipt of other federal grants.

Alcohol tax is the most flexible funding source that supports state approved county programs. Other funding sources stipulate criteria governing how funds must be spent. Reducing alcohol tax funds for state approved programs will limit administrative flexibility to design and deliver services deemed appropriate by the program. Additionally, programs may not have as much funding to deliver services to low-income persons with incomes or resources above Medicaid eligibility levels if alcohol tax funds are reduced. In some smaller programs alcohol tax may support up to 50 percent of the treatment budget.

The executive proposes to offset the alcohol tax funding shift by requesting \$0.5 million general fund over the biennium to leverage additional Medicaid funds to provide payments to chemical dependency programs (see DP 355 Chemical Dependency Access Payment in the Addiction and Treatment Services program). If the legislature approves this proposal - DP 350, but not DP 355, counties will lose a significant source of funds for chemical dependency treatment.

While the executive proposal seems to hold the counties harmless, there is some risk for county payments. Since general fund would be budgeted for the match for the access payment, it could be subject to reductions considered by DPHHS in order to avoid a supplemental appropriation or to implement Section 17-7-140, MCA. Reductions in the match for access payments would reduce county reimbursement for local chemical dependency programs.

Options that the legislature can consider:

- Accept DP 350 and DP 355 or only DP 350
- Accept neither proposal
- Accept \$0.5 million in alcohol tax funding in place of general fund Medicaid mental health matching funds and \$0.5 million in general fund

DP 353 - Medicaid Provider Reimbursement Reduction - This proposal reduces provider payments across-the-board for the 2005 biennium and saves \$0.9 million of state general fund and \$2.4 million federal funds.

**LFD
COMMENT**

The executive includes a 1.87 percent reduction for Medicaid mental health service rates. It is unclear whether the most recent provider rate reductions (those enacted January 1, 2003) will be continued during the 2005 biennium. LFD staff has asked DPHHS to provide this information to the legislature.

Sub-Program Details

ADDICTION TREATMENT & PREVENTION 02

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	56.35	(3.00)	2.90	56.25	(3.00)	2.90	56.25	56.25
Personal Services	1,999,672	331,326	113,301	2,444,299	342,997	113,645	2,456,314	4,900,613
Operating Expenses	1,387,585	99,371	0	1,486,956	153,826	0	1,541,411	3,028,367
Equipment	0	11,751	0	11,751	11,751	0	11,751	23,502
Grants	4,778,376	607,045	800,000	6,185,421	607,045	0	5,385,421	11,570,842
Benefits & Claims	894,439	1,505,561	1,000,000	3,400,000	2,305,561	1,000,000	4,200,000	7,600,000
Debt Service	13,035	0	0	13,035	0	0	13,035	26,070
Total Costs	\$9,073,107	\$2,555,054	\$1,913,301	\$13,541,462	\$3,421,180	\$1,113,645	\$13,607,932	\$27,149,394
General Fund	16	(16)	271,200	271,200	(16)	275,700	275,700	546,900
State/Other Special	2,436,873	762,741	113,301	3,312,915	827,535	113,645	3,378,053	6,690,968
Federal Special	6,636,218	1,792,329	1,528,800	9,957,347	2,593,661	724,300	9,954,179	19,911,526
Total Funds	\$9,073,107	\$2,555,054	\$1,913,301	\$13,541,462	\$3,421,180	\$1,113,645	\$13,607,932	\$27,149,394

Addiction treatment and prevention services include the Montana Chemical Dependency Center, community services, and funding for state approved chemical dependency programs. The most significant budget proposal is expansion of Medicaid funding for community, outpatient and residential chemical dependency services. The division began implementing the expansion in fiscal 2001 and is requesting only the federal Medicaid matching funds in its budget request. The state match comes from existing expenditures.

The major state funding source for this function is the earmarked alcohol tax. A table showing alcohol tax revenues, expenditures, and fund balance is shown in the division overview. Allocation of tax proceeds and disbursements is also discussed.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				494,593					505,224
Vacancy Savings				(99,776)					(100,193)
Inflation/Deflation				2,614					2,724
Fixed Costs				5,129					5,129
Total Statewide Present Law Adjustments				\$402,560					\$412,884
DP 140 - Block Grant Increase	0.00	0	0	607,045	0.00	0	0	0	607,045
DP 143 - Medicaid Program Changes	0.00	0	406,953	1,098,608	0.00	0	626,882	1,678,679	2,305,561
DP 145 - MCDC Base Adjustment	0.00	0	93,460	49,908	0.00	0	(70,923)	269,837	198,914
DP 335 - Reduce CIP FTE	(3.00)	0	(103,480)	0	(3.00)	0	(103,224)	0	(103,224)
Total Other Present Law Adjustments	(3.00)	\$0	\$396,933	\$1,755,561	(3.00)	\$0	\$452,735	\$2,555,561	\$3,008,296
Grand Total All Present Law Adjustments				\$2,555,054					\$3,421,180

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions

on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 140 - Block Grant Increase - This request adds \$1.2 million in federal funds over the biennium for an expected increased in the block grant from the Substance Abuse and Mental Health Services Administration. It is also included in the Mental Health subprogram writeup.

DP 143 - Medicaid Program Changes - AMDD requests \$9,345,358 general fund, \$1,256,889 state special revenue and \$22,330,456 in federal funds for mental health Medicaid caseload and utilization increases over the biennium. The request would fund an 11.0 percent annual growth in mental health services in fiscal 2004 and fiscal 2005, consistent with growth rates since fiscal 2000. The request also includes present law adjustments for chemical dependency Medicaid services of 30 percent annual increases in fiscal 2004 and fiscal 2005 above the projected increase in fiscal 2003. The chemical dependency Medicaid program is projected to have a higher growth rate because Medicaid coverage for this service is new and provider capacity is in a growth stage.

DP 145 - MCDC Base Adjustment - AMDD requests \$342,282 federal and state special revenue for the biennium for routine MCDC base adjustments attributed to rent and food inflation, pharmacy inflation, outside medical costs, equipment, and restoration of zero-based overtime, differential and holiday pay for staff. The decision package also switches funding of alcohol tax and substance abuse block grant funds of \$714,090 over the biennium. In fiscal 2002 there was \$357,045 in excess block grant funds utilized at MCDC. It is anticipated that these funds will be utilized for community services in the 2005 biennium.

DP 335 - Reduce CIP FTE - The Community Incentive Grant has exhausted the administrative funding of 15 percent allowable under the grant. Positions were funded in the adjusted base with state special funds. This action eliminates 3.00 FTE and \$206,704 state special revenue funds in the 2005 biennium associated with the administration of the grant. Positions eliminated are two trainers and one administrative support.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 132 - Continue Community Incentive Grant										
02	0.00	0	0	800,000	800,000	0.00	0	0	0	0
DP 133 - MCDC Staffing Changes										
02	2.90	0	113,301	0	113,301	2.90	0	113,645	0	113,645
DP 355 - Chemical Dependency Access Payment										
02	0.00	271,200	0	728,800	1,000,000	0.00	275,700	0	724,300	1,000,000
Total	2.90	\$271,200	\$113,301	\$1,528,800	\$1,913,301	2.90	\$275,700	\$113,645	\$724,300	\$1,113,645

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 132 - Continue Community Incentive Grant - This proposal requests \$800,000 in federal authority for the biennium to finalize the Substance Abuse and Mental Health Services Administration State Incentive Grant program. This grant was started in fiscal 1999 for \$8.992 million and the request represents the estimated balance to complete the grant. The purpose of the grant is to provide the funding for training assistance to communities to assist with alcohol prevention, planning, and programming. The funds that remain represent the final amount of funds to distribute to communities.

DP 133 - MCDC Staffing Changes - This proposal requests \$226,946 state special revenue funds and 2.90 FTE for the biennium to fund aggregate positions at MCDC. This aggregate position pool is used to provide nursing coverage for the facility. The proposal is funded from alcohol tax allocated to DPHHS.

DP 355 - Chemical Dependency Access Payment - This proposal requests \$546,900 general fund and \$1,453,100 in federal funds over the biennium for a single payment to chemical dependency providers to ensure services to Montana rural communities. This previously was statutorily appropriated. The general fund replaces the alcohol tax revenue that went to county alcohol treatment programs.

**LFD
ISSUE**

This proposal is linked to DP 350 Alcohol Tax for General Fund Replacement in the mental health services function, which diverts \$1.0 million in state special alcohol taxes from local chemical dependency programs to offset general fund match for Medicaid mental health services. Issues and options for legislative consideration are presented in the discussion regarding DP 350.

Sub-Program Details

DIVISION ADMINISTRATION 03

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Exec. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Exec. Budget Fiscal 2005	Total Exec. Budget Fiscal 04-05
FTE	14.00	0.00	0.00	14.00	0.00	0.00	14.00	14.00
Personal Services	635,073	68,181	21,441	724,695	69,410	21,382	725,865	1,450,560
Operating Expenses	237,877	50,180	100,000	388,057	50,396	57,283	345,556	733,613
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Debt Service	3,472	0	0	3,472	0	0	3,472	6,944
Total Costs	\$876,422	\$118,361	\$121,441	\$1,116,224	\$119,806	\$78,665	\$1,074,893	\$2,191,117
General Fund	553,854	82,806	(15,983)	620,677	83,732	(15,949)	621,637	1,242,314
State/Other Special	26,048	3,796	0	29,844	3,839	0	29,887	59,731
Federal Special	296,520	31,759	137,424	465,703	32,235	94,614	423,369	889,072
Total Funds	\$876,422	\$118,361	\$121,441	\$1,116,224	\$119,806	\$78,665	\$1,074,893	\$2,191,117

Division administration is responsible for operation and management of the division. The administrative function is cost allocated across division activities and is supported from a mix of general fund, alcohol state special revenue, and federal Medicaid and block grant funds. The administrative budget request is 1 percent of the total funds requested and 1 percent of the general fund. The major changes are for statewide present law adjustments and two new proposals, which add a net increase of about \$200,000, primarily supported by federal funds.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General	State Special	Federal Special	Total Funds	FTE	General	State Special	Federal Special	Total Funds
Personal Services				97,484					98,763
Vacancy Savings				(29,303)					(29,353)
Inflation/Deflation				3,139					3,156
Fixed Costs				47,041					47,240
Total Statewide Present Law Adjustments				\$118,361					\$119,806
Grand Total All Present Law Adjustments				\$118,361					\$119,806

Executive Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
Sub Program	Fiscal 2004					Fiscal 2005				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 131 - Continue Data Infrastructure & Integration Grant										
03	1.00	0	0	146,415	146,415	1.00	0	0	103,585	103,585
DP 287 - FTE Reduction										
03	(1.00)	(15,983)	0	(8,991)	(24,974)	(1.00)	(15,949)	0	(8,971)	(24,920)
Total	0.00	(\$15,983)	\$0	\$137,424	\$121,441	0.00	(\$15,949)	\$0	\$94,614	\$78,665

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

DP 131 - Continue Data Infrastructure & Integration Grant - This proposal requests \$250,000 in federal funds and funding for 1.00 FTE for the biennium for the continuation and completion of a Mental Health Services Data Infrastructure and Integration Grant designed to improve accountability, increase access, target resources and continuously improve the quality of care of adults and children with mental illness.

DP 287 - FTE Reduction - This proposal reduces 5.00 FTE for a saving of \$309,952 general fund and \$66,420 in federal funds for the biennium. The funding reduction is allocated 3.00 FTE to MSH and 2.00 FTE to the central office, of which 4.00 FTE are in the mental health services function. The central office FTE are an adult program mental health services officer and an administrative support person.

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